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Cover Page Footnote

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NOTES

PTO RULEMAKING IN THE TWENTY-FIRST CENTURY: DEFINING THE LINE BETWEEN STRATEGIC PLANNING AND ABUSE OF AUTHORITY

Brian E. Mack*

INTRODUCTION

The U.S. Patent and Trademark Office (PTO)¹ is currently “under siege.”² It is combating a seemingly insurmountable backlog of unexamined patent applications³ and ever-increasing application pendency.⁴ Despite efforts to increase examination efficiency,⁵ conditions at the PTO

* J.D. Candidate, 2008, Fordham University School of Law. Patent Agent, Ropes & Gray LLP. I would like to thank Professor Susan Scafidi for her valuable feedback and guidance throughout the note-writing process.

1. The U.S. Patent and Trademark Office (PTO) is a federal administrative agency of the U.S. Department of Commerce responsible for the examination and issuance of U.S. patents and trademarks. *See* Herbert F. Schwartz, Patent Law and Practice 10-11 (3d ed. 2001); U.S. Patent & Trademark Office, Our Business: An Introduction to the USPTO, <http://www.uspto.gov/web/menu/intro.html> (last visited Jan. 31, 2007).

2. U.S. Patent & Trademark Office, The 21st Century Strategic Plan 1 (2003), available at http://www.uspto.gov/web/offices/com/strat21/stratplan_03feb2003.pdf [hereinafter Strategic Plan]; *see also* U.S. Patent & Trademark Office, Interim Adjustments to the 21st Century Strategic Plan 6 (2005), available at <http://www.uspto.gov/web/offices/ac/comp/budg/iad-strat.pdf> (outlining changes to the PTO’s performance targets due to “the doubling of the number of patent applications filed since 1992, the increased technical complexity of patent applications, and the growth in the backlog of applications awaiting a patent examiner’s first review”).

3. *See* Strategic Plan, *supra* note 2, at 1; *see also* Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48, 49 (proposed Jan. 3, 2006) (to be codified at 37 C.F.R. pt. 1) (noting the PTO’s backlog).

4. *See* U.S. Patent & Trademark Office, Performance and Accountability Report for Fiscal Year 2005, at 22-23 (2005), available at <http://www.uspto.gov/web/offices/com/annual/2005/2005annualreport.pdf>. Total application pendency is the length of time an application is pending at the PTO before abandonment or issuance.

5. For example, the PTO hired a record 1218 new patent examiners in 2006. *See* U.S. Patent & Trademark Office, Performance and Accountability Report: Fiscal Year 2006, at 4 (2006), available at <http://www.uspto.gov/web/offices/com/annual/2006/2006annualreport.pdf> [hereinafter Performance and Accountability Report: Fiscal Year 2006]. The PTO has also launched an electronic patent application filing system that has been met with approval by patent applicants. *See id.* at 18 (noting that the PTO exceeded its goal of

are not improving: The time before which an applicant receives a first Office Action⁶ has increased every year since 2000,⁷ and total application pendency has increased every year since 2002.⁸ Today, a typical patent applicant can expect to wait almost two years before receiving an initial examination of a patent application.⁹

To be sure, the PTO's current predicament is not the result of endemic mismanagement or lack of effective leadership; rather, it is largely the result of booming business at the PTO. New application filings increased nearly twenty-five percent between 2003 and 2006,¹⁰ with a significant portion of these filings originating from foreign applicants.¹¹ In fact, due to the burgeoning number of new patent application filings, the operation of the PTO is actually a profitable business for the United States.¹² The PTO has been self-sufficient since 1991, capable of deriving its entire operating budget from applicant fee revenue, and even saw a surplus of over \$545 million between fiscal year (FY) 1991 and 2004,¹³ and a net income of over \$80 million in FY 2006 alone.¹⁴ Foreign patent applicants are increasingly seeking patent protection in the United States because of today's global economy; this has, at least in part, led to the influx of new filings.¹⁵ In addition, a rash of large patent settlements and jury awards in recent U.S.

new electronic patent application filings in 2006); U.S. Patent & Trademark Office, Electronic Filing System Help, http://www.uspto.gov/ebc/efs_help.html (last visited Jan. 31, 2007).

6. An Office Action is an official communication from the PTO setting forth the patent examiner's arguments regarding the patentability of an applicant's claims. *See generally* Robert P. Merges et al., *Intellectual Property in the New Technology Age* 159-64 (4th ed. 2006); *infra* notes 67-70 and accompanying text.

7. *See* Performance and Accountability Report: Fiscal Year 2006, *supra* note 5, at 21-22; U.S. Patent & Trademark Office, Performance and Accountability Report: Fiscal Year 2003, at 19 (2003), *available at* <http://www.uspto.gov/web/offices/com/annual/2003/2003annualreport.pdf> [hereinafter Performance and Accountability Report: Fiscal Year 2003].

8. *See* Performance and Accountability Report: Fiscal Year 2006, *supra* note 5, at 22; Performance and Accountability Report: Fiscal Year 2003, *supra* note 7, at 19.

9. The time to first Office Action averaged 22.6 months in fiscal year 2006. *See* Performance and Accountability Report: Fiscal Year 2006, *supra* note 5, at 70.

10. *Id.* at 62.

11. Over forty-five percent of all patent applications filed in 2005 were filed by foreign residents. *See id.* at 126, 128-29 (dividing the number of patent applications filed by foreign residents by the number of total applications filed).

12. *See Figueroa v. United States*, 466 F.3d 1023, 1027 (Fed. Cir. 2006) (analyzing PTO patent fee appropriations).

13. *See id.* Interestingly, at least one patent applicant challenged the use of patent application fees to fund federal programs outside the PTO. The U.S. Court of Appeals for the Federal Circuit held that PTO fees can be constitutionally applied to other federal programs. *Id.* at 1025-26.

14. *See* Performance and Accountability Report: Fiscal Year 2006, *supra* note 5, at 78.

15. For an analysis of who is obtaining patents in what industries, see John R. Allison & Mark A. Lemley, *Who's Patenting What? An Empirical Exploration of Patent Prosecution*, 53 Vand. L. Rev. 2099 (2000).

patent enforcement actions has enticed both foreign and domestic applicants to procure U.S. patent protection.¹⁶

The rush to file new patent applications in the United States accounts for only part of the PTO's "workload crisis."¹⁷ According to the PTO, the subject matter of new patent applications is growing increasingly technical and complex,¹⁸ especially in the fields of biotechnology, electronics, and computer software. The esoteric nature of these applications sometimes requires patent examiners to perform an extensive review of background literature before they can effectively tackle an application and issue a first Office Action. In addition, the PTO has adopted various internal quality control procedures that have affected total application pendency. For example, to help improve patent quality, the PTO has implemented a widespread "second pair of eyes" review policy before patent issuance.¹⁹ The PTO adopted this quality control procedure partly in response to applicant demands for patent claims with a higher likelihood of validity during the enforcement process.²⁰

Although the PTO's efforts to improve patent quality are admirable and arguably much needed, these efforts have not increased application examination efficiency. The rate of new application filings continues to outpace the rate at which the PTO examines new applications.²¹ As a result, the PTO sees itself moving away, not toward, its twenty-first century Strategic Plan goal²² of controlling application pendency and expediting the patent prosecution²³ process.

To help reduce application pendency and improve the overall plight at the Patent Office, the PTO recently proposed two new rules²⁴ designed to

16. The largest patent enforcement settlement tops \$1.3 billion. See Marius Meland, *IP Litigation Yielded \$3.4B in 2006: Survey*, IP Law 360, Dec. 29, 2006, <http://ip.law360.com/Secure/ViewArticle.aspx?id=15579> (last visited Feb. 27, 2007). There are, of course, other economic reasons for obtaining patent protection. For example, venture capitalists often look for issued patents or pending patent applications when valuing (and funding) a start-up. See generally Norman Carte, *Patent Valuation: The Maximum Achievable Profits Method*, Intell. Prop. Today, May, 2005, at 32.

17. See Strategic Plan, *supra* note 2, at 1.

18. *Id.*

19. The second pair of eyes review includes a second review of claims before issuance by another person, typically a primary or supervisory patent examiner. See *id.* at 9; John R. Allison & Emerson H. Tiller, *The Business Method Patent Myth*, 18 Berkeley Tech. L.J. 987, 995 (2003).

20. The PTO actively monitors patent and trademark litigation activity. See Performance and Accountability Report: Fiscal Year 2006, *supra* note 5, at 147.

21. See Strategic Plan, *supra* note 2, at 5.

22. See *id.*

23. Patent prosecution is the general term for the interaction between patent applicants (or their representatives) and the PTO. It includes the filing of a patent application and the back-and-forth process of receiving and replying to official communications from the PTO. See generally U.S. Patent & Trademark Office, Manual of Patent Examining Procedure ch. 700 (8th ed. 2006) [hereinafter MPEP].

24. Although this Note refers to each rule in the singular as either the "continuing application rule" or the "claim designation rule," each rule actually proposes to amend multiple sections of title 37 of the Code of Federal Regulations (C.F.R.). See Changes to

help the PTO meet its productivity goals.²⁵ The new rules propose to amend various sections of title 37 of the Code of Federal Regulations (C.F.R.) to limit an applicant's ability to file continuing applications²⁶ and to obtain a complete examination of the claims²⁷ of a patent application. The rules, if adopted, would represent a radical shift in the PTO's long-standing practice of allowing applicants to determine the strength and scope of patent protection for their inventions.²⁸ The new rules are also significant because they test the limits of the PTO's rulemaking authority.²⁹

Although there has been limited support for the new rules,³⁰ most contend that the rules, if adopted, would hinder patent applicants from obtaining comprehensive patent protection.³¹ Many also argue that the new rules would persuade patent applicants to reassess the viability of patents as an adequate form of intellectual property protection and to consider alternate forms of protection.³² Some commentators have even questioned the PTO's statutory authority to promulgate the new rules.³³

This Note analyzes the bounds of the PTO's rulemaking authority and the validity of the two rules proposed by the PTO on January 3, 2006.³⁴ In order to thoroughly assess the validity of these new rules, Part I of this Note

Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48 (proposed Jan. 3, 2006) (to be codified at 37 C.F.R. pt. 1) (continuing application rule); Changes to Practice for the Examination of Claims in Patent Applications, 71 Fed. Reg. 61 (proposed Jan. 3, 2006) (to be codified at 37 C.F.R. pt. 1) (claim designation rule).

25. See Press Release, U.S. Patent & Trademark Office, USPTO Proposes Measures to Improve Patent Examination (Jan. 3, 2006), available at <http://www.uspto.gov/web/offices/com/speeches/06-01.htm>.

26. See *infra* notes 78-80 and accompanying text.

27. The claims of a patent application define the "metes and bounds" of the subject matter that will be protected by the patent grant. See *infra* note 45 and accompanying text.

28. See generally *infra* Part I.A.

29. See *infra* Part II.

30. Of the comments submitted to the PTO in response to the notice of proposed rulemaking from organizations, agencies, corporations, associations, and law firms, only a handful are in favor of the proposed rules. See generally U.S. Patent & Trademark Office, Comments Regarding Continuation Practice, http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_continuation/continuation_comments.html (last visited Jan. 31, 2007) (collecting public comments submitted to the PTO regarding the proposed continuing application rule); U.S. Patent & Trademark Office, Comments Regarding Claims Practice, http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_claims/claims_comments.html (last visited Jan. 31, 2007) (collecting public comments submitted to the PTO regarding the proposed claim designation rule).

31. The American Intellectual Property Law Association (AIPLA) presents a typical argument along these lines. See Letter from Michael K. Kirk, Executive Dir., AIPLA, to the Honorable Jon Dudas, Under Sec'y of Commerce for Intellectual Prop. & Dir. of the U.S. Patent & Trademark Office (Apr. 24, 2006) [hereinafter AIPLA Continuation Comments], available at http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_continuation/aipia.pdf; *infra* Part III.C.

32. For example, trade secrets may become a more attractive option. For a comparison of the available types of intellectual property protection, see Merges et al., *supra* note 6, at 24-30.

33. See, e.g., AIPLA Continuation Comments, *supra* note 31, at 6-8.

34. See *supra* note 24 and accompanying text.

lays the necessary foundation for distinguishing between valid and invalid PTO rules.

Part II analyzes the debate surrounding the PTO's statutory authority to adopt the proposed continuing application rule and the claim designation rule. It presents the arguments of the proponents of the new rules,³⁵ who feel the rules are both necessary and squarely within the PTO's statutory authority to adopt, as well as the arguments of the opponents of the new rules,³⁶ who feel the rules are "troubling"³⁷ and overreaching.

Part III of this Note suggests a framework for delineating between valid and invalid PTO rulemaking. This part also argues that the PTO will exceed its congressional grant of rulemaking authority in adopting at least one of the new rules. This Note concludes with some potential alternatives to the rules that might increase examination efficiency at the PTO.

I. THE HISTORY OF PTO RULEMAKING AND THE OFFICE'S RULEMAKING AUTHORITY

The PTO has a rich legislative rulemaking history that stretches back over 165 years.³⁸ PTO rules have historically dictated the manner of applicant interaction with the PTO in order to procure a patent.³⁹ To understand how a patent application matures into a patent, Part I.A presents a brief primer on the patent application filing and prosecution⁴⁰ processes. Part I.B then details the new continuing application and claim designation rules and their effect on patent applicants. To thoroughly analyze the validity of the new rules, Part I.C traces the development of the PTO's statutory authority to promulgate rules, and Part I.D highlights selected PTO rulemaking at various stages throughout the PTO's rulemaking history. Part I.E then analyzes the effect of the Administrative Procedure Act (APA) on PTO rulemaking. Finally, Part I.F outlines some limits on PTO rulemaking due to both the language of the PTO's statutory rulemaking grant and the APA's judicial review provisions.

A. *Anatomy of the Patent Prosecution Process*

A patent applicant must satisfy several requirements before the PTO will award the applicant a patent.⁴¹ The process begins with the applicant⁴²

35. According to the published comments on the proposed rulemaking, the proponents of the new rules are limited to the PTO and a handful of applicants and organizations. *See supra* note 30.

36. Opponents include the overwhelming majority of applicants, law firms, and organizations. *See supra* note 30.

37. Kirk, AIPLA Continuation Comments, *supra* note 31, at 3.

38. The PTO's first express rulemaking authority appeared in the Act of 1839. *See infra* notes 107-08 and accompanying text.

39. *See infra* notes 126-31 and accompanying text.

40. *See supra* note 23.

41. *See* 35 U.S.C. § 101 (2000) ("Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful

preparing and filing a patent application, which is a formal document describing the applicant's invention.⁴³ The patent application typically includes several sections of text, called the specification, and at least one drawing referenced within the specification.⁴⁴ The application concludes with a series of numbered noun phrases, called claims, that define the "metes and bounds" of the applicant's invention.⁴⁵ The claims of a patent application also define the extent of protection conferred by the patent grant, if and when the application matures into a patent. For example, to prove infringement⁴⁶ of a patent, the current owner of a patent typically must show that an accused device "embodies every limitation" of at least one issued claim.⁴⁷

Patent application claims are either independent⁴⁸ or dependent.⁴⁹ Independent claims stand on their own and do not reference other claims in the patent application.⁵⁰ Dependent claims "refer[] back to and further limit[] another claim or claims in the same application."⁵¹ The PTO construes dependent claims as including all of the limitations of any claims they reference.⁵²

Under current PTO practice, an applicant is generally free to determine the number of claims presented in a patent application.⁵³ The PTO does, however, charge a claim surcharge for each independent claim presented in a patent application in excess of three and for each total claim presented in excess of twenty.⁵⁴ Provided that the applicant pays the appropriate surcharges, the PTO examines all the claims in the application, or restricts a

improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.").

42. More precisely, the applicant's representative (e.g., a registered patent practitioner) typically prepares and files the patent application on the applicant's behalf. *See generally* MPEP, *supra* note 23, at ch. 400; Schwartz, *supra* note 1, at 10-11.

43. *See* Schwartz, *supra* note 1, at 12-16.

44. *See id.*

45. *See* Robert C. Faber, *Landis on Mechanics of Patent Claim Drafting* § 4 (4th ed. 1999); MPEP, *supra* note 23, § 2171.

46. *See generally* 35 U.S.C. § 271; Schwartz, *supra* note 1, at 131-53.

47. *Carroll Touch, Inc. v. Electro Mech. Sys., Inc.*, 15 F.3d 1573, 1576 (Fed. Cir. 1993); *see also* *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 821-22 (Fed. Cir. 1992).

48. *See* Faber, *supra* note 45, § 11A.

49. *See* 37 C.F.R. § 1.75(c) (2006); Faber, *supra* note 45, § 11.

50. For example, an independent claim might read as follows: "1. A widget comprising A, B, and C." A dependent claim in the same application might then read as follows: "2. The widget of claim 1 further comprising D." *See* Faber, *supra* note 45, § 11.

51. 37 C.F.R. § 1.75(c).

52. *See id.* ("Claims in dependent form shall be construed to include all the limitations of the claim incorporated by reference into the dependent claim.").

53. *See* Faber, *supra* note 45, §§ 60-62. *But see* 37 C.F.R. § 1.75(b) ("More than one claim may be presented provided they differ substantially from each other and are not unduly multiplied.").

54. Excess claim fees have risen sharply in recent years. *See* 37 C.F.R. § 1.16(h) (independent claims in excess of three); *id.* § 1.16(i) (total claims in excess of twenty).

subset of the claims out of the application, if the claims recite more than one "independent or distinct" invention.⁵⁵

An applicant files a patent application in the PTO with the required filing fees⁵⁶ and other formal filing documents.⁵⁷ The PTO then accords the application a filing date⁵⁸ and queues the application for examination. After some time,⁵⁹ a patent examiner will review, or examine, the patent application and its claims. The examiner will also perform an extensive search of the relevant prior art, which includes patent application publications,⁶⁰ issued patents, and other printed publications⁶¹ accessible to the interested public prior to the effective filing date⁶² of the patent application being examined.⁶³

After a review of the prior art, the patent examiner may reject one or more claims in the patent application as failing to meet the standards of patentability recited in the patent statute.⁶⁴ The main pitfalls to patentability lie in 35 U.S.C. §§ 102 and 103, which require that the applicant's claimed invention be both novel⁶⁵ and nonobvious⁶⁶ over the prior art. After a review of the patent application's claims and the available prior art, the patent examiner will typically issue a first official communication, called an Office Action, rejecting one or more of the patent

55. Restriction practice requires the applicant to elect a single invention for examination and pursue the unelected invention or inventions in one or more continuing applications, usually one or more divisional applications. See MPEP, *supra* note 23, §§ 201.06, 803.

56. The current basic filing, search, and examination fees total \$1000 (\$500 for small entities). See U.S. Patent & Trademark Office, FY 2007 Fee Schedule, <http://www.uspto.gov/go/fees/fec2007february01.htm> (last visited Jan. 31, 2007) [hereinafter FY 2007 Fee Schedule].

57. The formal filing documents include an oath by the applicant that the applicant believes he or she is "the original and first inventor" of the subject matter for which a patent is sought. See 35 U.S.C. §§ 111, 115 (2000); 37 C.F.R. § 1.53; MPEP, *supra* note 23, § 506.

58. The application filing date is important because it determines the reference date used to discover "prior" art. See *infra* notes 60-64 and accompanying text.

59. On average, an applicant waits 22.6 months before initial examination of his or her patent application. See *supra* note 9.

60. The PTO normally publishes patent applications eighteen months from the earliest effective filing date. See 35 U.S.C. § 122(b).

61. The term printed publication is expansive and includes websites and other electronically published documents. See generally MPEP, *supra* note 23, § 2128 ("A reference is proven to be a 'printed publication' 'upon a satisfactory showing that such document has been disseminated or otherwise made available to the extent that persons interested and ordinarily skilled in the subject matter or art, exercising reasonable diligence, can locate it.'" (quoting *In re Wyer*, 655 F.2d 221, 226 (C.C.P.A. 1981))).

62. An applicant's effective filing date takes into account any benefit claims to certain prior, related applications. See *id.* § 706.02(V).

63. For the different types of prior art, see generally *id.* ch. 900.

64. See generally Schwartz, *supra* note 1, at 61 ("For an invention to be patentable, it must be (1) of patentable subject matter, (2) useful, (3) new, and (4) nonobvious.").

65. Novelty requires that an applicant's invention be not "known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent." 35 U.S.C. § 102(a).

66. The applicant's "subject matter as a whole" cannot be obvious to one having "ordinary skill in the art." *Id.* § 103(a).

application's claims.⁶⁷ The applicant may then reply to the Office Action by amending⁶⁸ the claims of the patent application to distinguish the applicant's claimed invention from the prior art cited in the Office Action.⁶⁹ Alternatively, the applicant may leave the claims as is and argue that the examiner has misconstrued the prior art or the applicant's claims.⁷⁰

If the examiner agrees with the applicant, the PTO will issue a Notice of Allowance⁷¹ and eventually a patent covering the claims of the patent application.⁷² If the applicant's arguments are not convincing, however, then the examiner may issue a second, "final" Office Action.⁷³ After the PTO issues a final Office Action, prosecution of the application is officially closed, and further amendments to the application's claims are no longer allowed as a matter of right.⁷⁴ The applicant may, nevertheless, attempt to convince the examiner one more time that the claims in the patent application satisfy the requirements of the patent statute.⁷⁵ Thus, a patent applicant is said to receive "two bites" at obtaining a patent. If at any time the applicant fails to reply to an Office Action within the required time period,⁷⁶ the application becomes abandoned.⁷⁷

In a typical patent application filing cycle, an applicant first files an initial application directed to the core aspect of the applicant's invention. The applicant then prosecutes this initial application to abandonment or patenting. At anytime before abandonment or patenting, the applicant may file one or more "continuing" applications⁷⁸ directed to another (or the same) aspect of the invention. The PTO accords these "child" continuing applications an effective filing date equal to the filing date of the "parent" application for prior art purposes;⁷⁹ however, the PTO measures the term of any patent issuing from a continuing application from the filing date of the earliest parent application.⁸⁰

67. See MPEP, *supra* note 23, § 706.

68. Amendments to an application are governed by 37 C.F.R. § 1.121. See *id.* § 714.

69. See 37 C.F.R. § 1.111 (2006); Schwartz, *supra* note 1, at 20-21.

70. See 37 C.F.R. § 1.111(b).

71. See MPEP, *supra* note 23, § 1303.

72. See *id.* § 1309; Schwartz, *supra* note 1, at 21-22.

73. See MPEP, *supra* note 23, § 706.07.

74. See *id.* §§ 714.12-.13; Schwartz, *supra* note 1, at 22-26.

75. The applicant may file a reply to the final Office Action with or without an amendment. See MPEP, *supra* note 23, §§ 714.12-.13.

76. Generally, an Office Action sets a three-month shortened statutory time period to reply. See *id.* § 710.02(b).

77. See 37 C.F.R. § 1.135 (2006); MPEP, *supra* note 23, § 711.

78. Continuing applications include divisional, continuation, and continuation-in-part applications. See Schwartz, *supra* note 1, at 24-26; MPEP, *supra* note 23, § 201.06 (divisional applications); *id.* § 201.07 (continuation applications); *id.* § 201.08 (continuation-in-part applications).

79. See generally 35 U.S.C. § 120 (2000); *supra* notes 58-63 and accompanying text.

80. The patent term is twenty years from the filing date of the earliest prior-filed application whose benefit is claimed under 35 U.S.C. § 120, 121, or 365(c). See 35 U.S.C. § 154(a)(2); MPEP, *supra* note 23, § 2701.

In lieu of, or in addition to, filing a continuing application, if an applicant is unsuccessful in convincing the patent examiner that the claims of the patent application meet the requirements of the patent statute,⁸¹ the applicant may file a request for continued examination (RCE).⁸² After filing the request, the finality of the last Office Action is withdrawn, and the PTO permits the applicant another “two bites” at convincing the examiner that the application’s claims are patentable.⁸³ The RCE process may continue indefinitely, so long as the applicant pays the requisite fees and meets the other procedural requirements.⁸⁴ Thus, the PTO presently allows a determined applicant to prosecute a patent application indefinitely so long as the applicant “advance[s] prosecution.”⁸⁵

B. *The New Proposed Rules*

This section details the two new rules recently proposed by the PTO. Part I.B.1 describes the new continuing application rule, and Part I.B.2 explains the new claim designation rule. The proposed rules represent a significant shift in the flexibility patent applicants currently enjoy in determining the desired scope of their patent protection. The PTO may not adopt either of the new rules without thirty days advance notice.⁸⁶

1. Imposing Limits on Continuing Applications

The first new rule proposed by the PTO would drastically alter the current practice of filing continuing applications and requests for continued examination.⁸⁷ It would require that “second or subsequent continued examination filings, whether a continuation . . . or a request for continued examination”⁸⁸ be accompanied by a showing that the amendment, argument, or evidence submitted with the continued examination filing could not have been submitted to the Office before prosecution in the prior application closed.⁸⁹ The applicant’s showing that the amendment, argument, or evidence could not have been previously submitted must come in the form of a petition with a required petition fee.⁹⁰

81. See *supra* note 64 and accompanying text (listing the requirements for patentability).

82. See 35 U.S.C. § 132(b); 37 C.F.R. § 1.114.

83. See MPEP, *supra* note 23, § 706.07(h).

84. See 37 C.F.R. § 1.114; MPEP, *supra* note 23, § 706.07(h).

85. See *In re Bogese II*, 303 F.3d 1362, 1369 (Fed. Cir. 2002) (holding that an applicant forfeited a patent application for an unreasonably lengthy prosecution with no attempt substantively to advance prosecution); *infra* note 281 and accompanying text.

86. See U.S. Patent & Trademark Office, Proposed Rule Changes to Focus the Patent Practice in the 21st Century, <http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/focuspp.html> (last visited Jan. 31, 2007).

87. See Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48, 48 (proposed Jan. 3, 2006) (to be codified at 37 C.F.R. pt. 1).

88. *Id.*

89. *Id.* at 48-52.

90. *Id.* at 53-54.

If the applicant cannot make the appropriate showing, the Office will "refuse to enter, or will delete if present" any reference to the earlier application in the continuing application.⁹¹ This refusal would strip the continuing application of the benefit of the earlier-filed application's filing date, allowing the earlier-filed application to be used as prior art against the later-filed continuing application.⁹² It would also serve as an effective bar to the second application ever maturing into a patent.

It has been noted that "[o]ne of the oddest things about the United States patent system" is the impossibility of "ever finally reject[ing] a patent application."⁹³ This result is due to the lack of any limit on the number of continuing applications or requests for continued examination an applicant may file.⁹⁴ Although this practice allows patent applicants to maximize the potential of their patent applications, the undesirability of this arrangement, as well as its potential for abuse, abounds.⁹⁵

2. Designating Representative Claims for Examination

The second rule proposed by the PTO restricts the ability of applicants to receive initial examination of all the claims in a patent application.⁹⁶ The claim designation rule proposes to amend title 37 of the C.F.R. to require applicants to designate ten representative claims in each patent application for initial examination.⁹⁷ The representative claims would include all independent claims and any dependent claims expressly elected by the applicant.⁹⁸ The PTO would then only examine the designated representative claims and defer examination of the remaining claims until the application is otherwise in condition for allowance.⁹⁹

If the applicant desires to have more than ten representative claims examined, the new rule requires the applicant to "share the burden" of

91. *Id.* at 54.

92. Since the applications would generally contain the same disclosure, any claims supported by the disclosure of the later-filed application would be anticipated by the disclosure of the earlier-filed application, eliminating the possibility of any patentable claims.

93. Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 B.U. L. Rev. 63, 64 (2004).

94. More precisely, an applicant may file continuing applications or requests for continued examination until the patent term expires, provided that an application is still pending at this time and the other procedural requirements are met. See MPEP, *supra* note 23, §§ 201.07, 2701.

95. For examples of the undesirable results of the unlimited continuation practice, see Lemley & Moore, *supra* note 93, at 71-83.

96. See Changes to Practice for the Examination of Claims in Patent Applications, 71 Fed. Reg. 61, 61 (proposed Jan. 3, 2006) (to be codified at 37 C.F.R. pt. 1).

97. *Id.*

98. *Id.*

99. *Id.* at 62 ("[T]he Office is proposing to delay the patentability examination of most dependent claims until the application is otherwise in condition for allowance. The Office, however, will examine every claim in an application before issuing a patent on the application.").

examining the excess claims by providing an examination support document (ESD) covering all the designated claims.¹⁰⁰ The ESD would include a statement by the applicant that a pre-examination search was conducted and a listing of pertinent references resulting from the search.¹⁰¹

3. The Interplay Between the Two Proposed Rules

Although each of the two proposed rules represents a radical shift in the filing and examination procedure for patent applications, the combination of the rules has an additional impact on some applicants. By limiting both the number of continuing applications and the number of claims in each application, the total number of claims directed toward a particular invention is capped.¹⁰² Some applicants may be unable to adequately claim their inventions with such a small, fixed number of claims.¹⁰³

In addition, the proposed continuing application rule creates a presumption that two or more patent applications contain "patentably indistinct" claims if the following are true: (1) The applications have the same effective filing dates; (2) the applications name at least one inventor in common, are owned by the same person, or are subject to an obligation of assignment to the same person; and (3) the applications contain substantially overlapping specifications.¹⁰⁴ The proposed claim designation rule, however, specifies that all patentably indistinct claims will be counted toward the ten claim designation limit in each application with patentably indistinct claims.¹⁰⁵

100. *Id.*

101. The examination support document (ESD) would also include "an identification of all the limitations of the independent claims and designated dependent claims that are disclosed by the references cited." *Id.* at 65.

102. The number of claims is limited only if the applicant does not wish to provide an ESD. For example, a single invention could have, at most, twenty independent claims—ten in the first application and ten in the single permitted continuing application. Distinct inventions, however, may be subject to a restriction requirement, and an applicant may file a divisional application for each such distinct invention. Each divisional application may then be eligible for a single continuing application. See Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48, 53 (proposed Jan. 3, 2006) (to be codified at 37 C.F.R. pt. 1).

103. Another observation made primarily by biotech firms is that the new rules limit an applicant's ability to present claims in a continuing application that cover new uses of the invention. See, e.g., Laura Cutland, *Patent Rule Irks Bio Firms*, Silicon Valley/San Jose Bus. J., Jan. 20, 2006, at 1, available at <http://www.bizjournals.com/sanjose/stories/2006/01/23/story2.html>.

104. See Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. at 55.

105. See Changes to Practice for the Examination of Claims in Patent Applications, 71 Fed. Reg. at 64 ("[I]f the patentably indistinct claims are not eliminated from all but one of the nonprovisional applications, the Office will treat the independent claims and the dependent claims designated for initial examination in the first nonprovisional application and in each of such other nonprovisional applications or patents as present in each of the nonprovisional applications.").

As a result, in addition to allowing only a single continuing application, the new rules would also prevent applicants from “splitting” an omnibus application, or filing multiple applications with identical disclosures on the same day directed toward different aspects of the applicant’s invention. Assuming applicants would not want to make assertions about the prior art on the record for fear of inequitable conduct,¹⁰⁶ the combined effect of the two proposed rules may be to dramatically limit an applicant’s ability to receive comprehensive patent protection, particularly for complex, multifaceted inventions. Since the two new rules would radically revise the long-standing procedure for filing new patent applications in the United States, it is helpful to outline a brief history of the PTO’s rulemaking authority.

C. *The Development of the PTO’s Rulemaking Authority*

1. The Act of 1839: PTO Rulemaking Beginnings

Forty-nine years after Congress enacted the first federal patent statute, Congress expressly granted the Commissioner of Patents his first rulemaking power.¹⁰⁷ The Act of 1839 provided “[t]hat the Commissioner of Patents shall have power to make all such regulations in respect to the taking of evidence to be used in contested cases before him, as may be just and reasonable.”¹⁰⁸ Although this rulemaking provision in the Act of 1839 does not resemble the PTO’s current rulemaking authority, it is important to note that the Commissioner once wielded extremely restricted rulemaking power limited exclusively to evidence gathering.

Congress slightly enlarged the Commissioner’s rulemaking power in the Act of 1861.¹⁰⁹ Specifically, Congress granted the Commissioner the authority to “establish rules for taking affidavits and depositions required in cases pending in the Patent Office” and to govern a board of examiners-in-

106. Inequitable conduct is an affirmative defense to patent infringement that can result from failing to disclose pertinent information to the PTO during the patent prosecution process. Questions of inequitable conduct may also be raised from misleading or false statements made to the PTO. For an overview of the inequitable conduct defense and its effect on the U.S. patent system, see Kevin Mack, Note, *Reforming Inequitable Conduct to Improve Patent Quality: Cleansing Unclean Hands*, 21 Berkeley Tech. L.J. 147 (2006). The possibility of creating an inequitable conduct defense was a common worry among applicants who commented on the new rules. See, e.g., Letter from Michael K. Kirk, Executive Director, AIPLA, to Honorable Jon Dudas, Under Sec’y of Commerce for Intellectual Property and Director of the USPTO 14 (Apr. 24, 2006) [hereinafter AIPLA Claims Comments], available at <http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fppclaims/aipla.pdf> (“[T]his requirement [to submit an ESD] makes the applicant an easy target for an inequitable conduct charge in an enforcement action.”).

107. The first federal patent statute was enacted in 1790. See Act of Apr. 10, 1790, ch. 7, 1 Stat. 109 (repealed 1793). Although the “Commissioner” was initially entrusted with the PTO’s statutory rulemaking power, the current rulemaking authority is granted to the “Office.” See 35 U.S.C. § 2(b) (2000).

108. Act of Mar. 3, 1839, ch. 88, § 12, 5 Stat. 353 (repealed 1861).

109. See Act of Mar. 2, 1861, ch. 88, § 1, 12 Stat. 246 (repealed 1870).

chief by “the rules to be prescribed by the Commissioner of Patents.”¹¹⁰ Although the Commissioner enjoyed slightly greater rulemaking power under the Act of 1861, the bounds of his rulemaking authority were still well-defined.

2. The Act of 1870: The Precursor to the Patent Act of 1952

The Commissioner’s rulemaking power remained fairly unaltered until 1870, when Congress granted the Commissioner sweeping authority to “establish rules and regulations . . . for the conduct of proceedings in the patent office.”¹¹¹ This statutory authorization, however, was subject to an important caveat: Any rule or regulation the Commissioner established under this provision was required to be “not inconsistent with law.”¹¹²

The language of the PTO’s current rulemaking authority is very similar to that of the 1870 statute;¹¹³ therefore, an analysis of the legislative history of the 1870 statute is essential to determine the congressional intent behind the rulemaking authority enjoyed by the PTO today. Unfortunately, however, the legislative history of the 1870 statute is “meager.”¹¹⁴ What is gleaned from the legislative history is that Congress intended to enlarge the PTO’s rulemaking power with the 1870 statute;¹¹⁵ however, as evidenced from a discussion on the floor of the House, the rulemaking powers were exclusively intended “to apply to the proceedings in the Patent Office” and, more particularly, for the purpose of “regulating the manner in which proceedings [before the Office] shall be conducted.”¹¹⁶

3. The Patent Act of 1952: Congress Grants the PTO Sweeping Rulemaking Authority

The Patent Act of 1952 codified many of the PTO’s procedures for examining and issuing patents.¹¹⁷ The specific “duties” of the PTO Commissioner, including his rulemaking powers, were codified in 35 U.S.C. § 6.¹¹⁸ Although the Patent Act of 1952 cosmetically modified the language of the Commissioner’s rulemaking power, “there is no evidence

110. *Id.* §§ 1-2; see also Herbert C. Wamsley, *The Rulemaking Power of the Commissioner of Patents and Trademarks* (pt. 1), 64 J. Pat. Off. Soc’y 490, 493 (1982).

111. Act of July 8, 1870, ch. 230, § 19, 16 Stat. 198 (repealed 1909).

112. *Id.*

113. Compare *id.* (granting the power to “establish rules and regulations . . . for the conduct of proceedings in the patent office”), with 35 U.S.C. § 2(b)(2)(A) (2000) (granting the power to “establish regulations . . . which shall govern the conduct of proceedings in the Office”).

114. Wamsley, *supra* note 110, at 494.

115. *Id.* (“[T]he Commissioner was being given some new authority [in the 1870 statute] to establish rules that he had not previously possessed . . .”).

116. Cong. Globe, 41st Cong., 2d Sess. 2856 (1870); Wamsley, *supra* note 110, at 495-96.

117. See Act of July 19, 1952, ch. 950, 66 Stat. 792 (codified as amended at 35 U.S.C. §§ 1-293 (2000)).

118. *Id.* § 6.

any change in substance [from the 1870 statute] was intended.”¹¹⁹ The PTO’s main statutory authority for rulemaking today lies in 35 U.S.C. § 2(a)(2),¹²⁰ which grants the PTO the ability to “establish regulations, not inconsistent with law, which . . . shall govern the conduct of proceedings in the Office.”¹²¹

Congress’s choice of expansive language in this rulemaking provision bestows “broad powers” on the PTO to establish rules.¹²² The U.S. Court of Appeals for the Federal Circuit has even described this statutory provision as a “general congressional grant of authority.”¹²³ As described in Part I.F, however, there are significant limitations to the PTO’s rulemaking authority.¹²⁴

D. Early Questions of the PTO’s Rulemaking Authority

The PTO has tested the bounds of its rulemaking authority before.¹²⁵ Part I.D.1 summarizes PTO rulemaking from 1839, after the Commissioner received his first rulemaking authority, to 1977. Part I.D.2 describes the bold use of the PTO’s rulemaking authority in enacting the “Dann Amendments” of 1977. Part I.D.3 discusses the repeal of the 1977 amendments and selected contemporary rulemaking.

1. Innocuous Rulemaking from 1839 to 1977

As one of the oldest administrative agencies in the United States,¹²⁶ the PTO is no stranger to rulemaking. The Commissioner of the PTO began developing “crude rules of practice”¹²⁷ even before he had the express authority to do so.¹²⁸ Although the earliest PTO rules related primarily to

119. Wamsley, *supra* note 110, at 497 & n.19. The rulemaking provision was changed from “[t]hat the commissioner, subject to the approval of the Secretary of the Interior, may from time to time establish rules and regulations, not inconsistent with law, for the conduct of proceedings in the patent office” to “[the commissioner] may, subject to the approval of the Secretary of Commerce, establish regulations, not inconsistent with law, for the conduct of proceedings in the Patent Office.” *Compare* Act of July 8, 1870, ch. 230, § 19, 16 Stat. 198 (repealed 1909), *with* Act of July 19, 1952, § 6.

120. The PTO’s main rulemaking authority was moved from 35 U.S.C. § 6 to 35 U.S.C. § 2 by the American Inventors Protection Act of 1999 (AIPA). *See* American Inventors Protection Act of 1999, Pub. L. No. 106-113, § 4712, 113 Stat. 1501 (codified as amended in scattered sections of 35 U.S.C.).

121. 35 U.S.C. § 2(b)(2)(A) (2000).

122. *Gerritsen v. Shirai*, 979 F.2d 1524, 1528 (Fed. Cir. 1992) (upholding PTO rule 662(b) requiring a patentee who has filed a reissue application after the close of the preliminary motions period of an interference proceeding to file a belated preliminary motion adding the application to the interference proceeding).

123. *Id.* at 1529.

124. *See infra* Part I.F.

125. *See, e.g., infra* Part I.D.2.

126. *See* Peter J. Corcoran III, *Administrative Procedure Act Standards Governing Judicial Review of Findings of Fact Made by the Patent and Trademark Office*, 7 Rich. J.L. & Tech. 1, 1 & n.1 (2000), available at <http://law.richmond.edu/jolt/v7i1/article1.html>.

127. Wamsley, *supra* note 110, at 499.

128. The Commissioner received the statutory authority to make rules in 1870. *See id.*

the format for submitting applications to the Office and the requisite fees for examination,¹²⁹ later rules began to “restate[] and interpret[]” the patent statute and judicial holdings relating to the patent statute.¹³⁰ After the Federal Register Act was amended in 1937 to provide for codification of administrative regulations,¹³¹ the PTO regularly codified its new rules in the C.F.R.

Perhaps the greatest influence on the format, structure, and readability of the PTO rules was the enactment of the Administrative Procedure Act in 1946.¹³² Partly in response to the Administrative Procedure Act and partly in response to internal reorganization, the Patent Office issued a major revision to the PTO rules in 1949.¹³³ Although the 1949 rules did not attempt to interpret the statutory requirements for patentability, for the first time the rules did impose new obligations on patent applicants—obligations that were not mandated by statute. As such, the 1949 rules represented an important shift in the purpose and function of PTO rules: The rules moved from expounding the procedures for interacting with the Patent Office to detailing the quid pro quo of the patent prosecution process. For example, Rule 65 of the 1949 rules required applicants to submit an oath regarding public use and prior sale of the invention in the United States before the PTO would accept an application for examination.¹³⁴ Although the 1949 rule revision began to test the bounds of the Commissioner’s rulemaking authority, the 1949 rules were modest compared to the rules adopted in 1977.

2. The 1977 Dann Amendments

The PTO’s “most far reaching”¹³⁵ use of rulemaking power was embodied in the Dann Amendments of 1977.¹³⁶ These rules established new procedures for reexamining¹³⁷ patents through the use of the reissue

129. *Id.* at 500.

130. *Id.* For example, PTO Rule 56 attempted to define the standard for fraud on the PTO. *See infra* notes 146-52 and accompanying text.

131. Act of June 19, 1937, ch. 369, § 11, 50 Stat. 304, 304-05 (codified as amended at 44 U.S.C. § 1510 (2000)).

132. The Administrative Procedure Act governs, among other things, the way in which administrative agencies in the United States promulgate new rules. *See generally* Tom C. Clark, Attorney Gen., U.S. Dep’t of Justice, Attorney General’s Manual on the Administrative Procedure Act (1947). For an analysis of the effect the Administrative Procedure Act had on PTO rules, *see generally* Casper W. Ooms, *The United States Patent Office and the Administrative Procedure Act*, 38 Trademark Rep. 149 (1948).

133. *See* Wamsley, *supra* note 110, at 501-03.

134. *Id.* at 502-03.

135. *Id.* at 512.

136. The Dann Amendments were proposed by Commissioner C. Marshall Dann, the Commissioner of Patents and Trademarks from 1974 to 1977. *See id.*

137. A reexamination is just that—another chance for the patent examiner to examine an applicant’s claims. *See* MPEP, *supra* note 23, § 2209 (discussing ex parte reexamination).

process¹³⁸ and changed several existing patent examining procedures. Although the patent community met the 1977 rules with overwhelming support,¹³⁹ some commentators questioned the authority of the Commissioner to adopt at least one of the 1977 rules.¹⁴⁰ For example, the 1977 rules amended Rule 175 to provide for a reexamination of claims in an issued patent through a reissue application (what later came to be known as the "no-defect"¹⁴¹ reissue).¹⁴² All that was required in order for an applicant to invoke the new procedure was "prior art or other information . . . which might cause the examiner to deem the original patent . . . invalid."¹⁴³ This rule revision was a major "reinterpretation" of 35 U.S.C. § 251, which, at the time, provided only for the reissue of actually defective applications.¹⁴⁴ The PTO, however, never questioned its statutory authority to adopt the new rule. In the PTO's view, its authority was "believed to exist" in 35 U.S.C. § 251 because the new rule was not literally inconsistent with the existing statute.¹⁴⁵

Another major rule change adopted in 1977 clarified a patent applicant's duty of disclosure.¹⁴⁶ Prior to the 1977 rule changes, Rule 56 permitted the Office to strike applications "fraudulently filed or in connection with which any fraud is practiced or attempted" on the PTO.¹⁴⁷ The rule, however, never defined which acts constituted fraud or when an application was fraudulently filed. As early as 1945, courts began expounding on the necessary acts required to commit fraud on the PTO and, in particular, when and what information must be disclosed during the patent prosecution process.¹⁴⁸ Not surprisingly, a number of confusing tests emerged in the years that followed for disclosing information to the PTO.¹⁴⁹ The PTO amended Rule 56 in 1977 partly in response to this confusion and partly in response to the definition of "materiality" offered by the U.S. Supreme

138. Today, the patent reissue process allows an applicant to surrender an issued patent and have the PTO reissue one or more patents for the invention disclosed in the original patent. See 35 U.S.C. § 251 (2000); MPEP, *supra* note 23, § 1401. Typically, patents are reissued because they are "wholly or partly inoperative or invalid" in some way. See 35 U.S.C. § 251.

139. A "substantial majority" of the comments received by the PTO favored the rule change. See Patent Examining and Appeal Procedures, 42 Fed. Reg. 5588, 5588 (Jan. 28, 1977).

140. *Id.*

141. Reissue, Reexamination, Protest and Examination Procedures in Patent Cases, 47 Fed. Reg. 21,746, 21,746 (May 19, 1982).

142. Patent Examining and Appeal Procedures, 42 Fed. Reg. at 5594-95.

143. *Id.* at 5594 (printing a revised version of 37 C.F.R. § 1.175(a)(4) (1976)).

144. Wamsley, *supra* note 110, at 515.

145. Patent Examining and Appeal Procedures, 42 Fed. Reg. at 5588.

146. *Id.* at 5593-94 (printing a revised version of 37 C.F.R. § 1.56).

147. 37 C.F.R. § 1.56.

148. See Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806 (1945) (equitably denying a claim of patent infringement due to unclean hands in failing to bring evidence of fraud and perjury to the attention of the PTO).

149. See generally Irving Kayton et al., *Fraud in Patent Procurement: Genuine and Sham Charges*, 43 Geo. Wash. L. Rev. 1 (1974); John T. Roberts, *The Disclosure Duty: Its Evolution, Scope, and Limitations*, 5 APLA Q.J. 154 (1977).

Court one year earlier in *TSC Industries v. Northway, Inc.*,¹⁵⁰ which related to false or misleading proxy statements in violation of the Securities Exchange Act. The PTO borrowed *Northway*'s "reasonable shareholder"¹⁵¹ standard in developing its "reasonable examiner" standard for materiality determinations in the context of patent applications.¹⁵²

Thus, under the guise of Rule 56, the Patent Office advanced its own interpretation of a patent applicant's duty of disclosure,¹⁵³ which was largely in line with the Court's holding in *Northway*.¹⁵⁴ For the first time, the PTO used its rulemaking power to codify its interpretation of a judicial decision. As a result, the promulgation of Rule 56 in 1977 represented another important expansion of the PTO's use of its rulemaking power.

3. Repeal of the Dann Amendments

Although the PTO repealed the 1977 no-defect reissue rule in 1982,¹⁵⁵ the PTO never indicated that it lacked the power to implement any of the 1977 rules. In fact, the PTO readily dismissed any questions about the Commissioner's statutory authority to adopt the 1977 rules and instead reiterated the goals of the new rules: to "improve the quality . . . of issued patents" and "help to maintain strong patent incentives."¹⁵⁶ According to the PTO, the no-defect reissue rule was repealed because its repeal was "desirable in light of the implementation of statutory patent reexamination," embodied in the new chapter 30 of 35 U.S.C.¹⁵⁷

Even though the PTO has repealed its own rules (such as the Dann Amendments) in the past, courts are very reluctant to overturn PTO rulemaking. In fact, there are only a handful of cases that clearly invalidate a PTO rule.¹⁵⁸ For example, in 1904, the Supreme Court held that PTO Rule 41, which mandated division of machine and process claims into

150. 426 U.S. 438 (1976) (formulating a standard of materiality under the Securities and Exchange Commission's false or misleading statements Rule 14a-9).

151. *Id.* at 449.

152. See Patent Examining and Appeal Procedures, 42 Fed. Reg. 5588, 5589 (Jan. 28, 1977); see also *Digital Control Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1314 (Fed. Cir. 2006) (reaffirming that the materiality standard for a determination of inequitable conduct requires a showing that a reasonable examiner would have considered such prior art important in deciding whether to allow the patent application).

153. See Patent Examining and Appeal Procedures, 42 Fed. Reg. at 5593-94.

154. See *Northway*, 426 U.S. at 449.

155. See Reissue, Reexamination, Protest and Examination Procedures in Patent Cases, 47 Fed. Reg. 21,746 (May 19, 1982). The repeal was effective July 1, 1982. *Id.* at 21,746.

156. Patent Examining and Appeal Procedures, 42 Fed. Reg. at 5588.

157. Reissue, Reexamination, Protest and Examination Procedures in Patent Cases, 47 Fed. Reg. at 21746.

158. See, e.g., *United States ex rel. Steinmetz v. Allen*, 192 U.S. 543 (1904) (holding PTO Rule 41 invalid); *Ethicon, Inc. v. Quigg*, 849 F.2d 1422 (Fed. Cir. 1988) (concluding that the Commissioner may not stay a reexamination proceeding under PTO Rule 565(b)).

separate applications, was invalid because it permitted no discretion.¹⁵⁹ The Court also emphasized the patent statute's superiority over PTO regulations by holding that "[i]f there is inconsistency between the rules and statute, the latter must prevail."¹⁶⁰

4. If at First You Do Not Succeed . . .

The mounting backlog of unexamined patent applications at the PTO did not develop overnight. In fact, the PTO recognized inflating application pendency and unsuccessfully attempted to adopt new rules to help reduce application pendency at least once before in 1998.¹⁶¹ Interestingly, the 1998 proposed rule changes also included a limit on the total number of claims eligible for examination in a patent application, akin to the new claim designation rule.¹⁶²

The PTO gave advance notice of the 1998 proposed rulemaking, which was entitled "Changes to Implement the Patent Business Goals."¹⁶³ The notice addressed twenty-one specific topics for proposed rulemaking, including a proposed topic to revise 37 C.F.R. § 1.75 to limit the total number of claims examined in a single patent application to forty.¹⁶⁴ The proposed rule also limited the total number of independent claims¹⁶⁵ in a patent application to six.¹⁶⁶

As with the current rule changes, the PTO attempted to mollify the impact of the new rules by citing to the small number of applicants that would be affected by the proposed rules.¹⁶⁷ According to the PTO, it was "inappropriate to continue to permit the proclivity of a relatively low number of applicants . . . for excessive claim presentation to result in delays . . . and unnecessary [application] pendency."¹⁶⁸ Unlike the new proposed claim designation rule, however, the claim rule proposed in 1998 emphasized that the limit of the number of claims was for examination in a single application "at one time."¹⁶⁹ An applicant could file "any number of continuing applications" (each with a maximum of forty claims) to obtain

159. *Steinmetz*, 192 U.S. at 563 ("Such a rule ignores the differences which invoke discretion, and which can alone justify its exercise, and we are of the opinion therefore that rule 41 is an invalid regulation.").

160. *Id.* at 565-66.

161. See *Changes to Implement the Patent Business Goals*, 63 Fed. Reg. 53,498 (proposed Oct. 5, 1998).

162. See *id.* at 53,506.

163. *Id.* at 53,498. The PTO's use of the word "business" in the title of these notices is interesting here, particularly in light of a recent challenge to the government's use of patent applicant fees to fund programs outside the PTO. See *supra* notes 12-13 and accompanying text.

164. *Changes to Implement the Patent Business Goals*, 63 Fed. Reg. at 53,506.

165. See *supra* notes 48-52 and accompanying text.

166. *Changes to Implement the Patent Business Goals*, 63 Fed. Reg. at 53,506.

167. See *id.* at 53,506-07.

168. *Id.* at 53,506.

169. *Id.*

broader claim coverage, if desired.¹⁷⁰ The 1998 proposed rule, therefore, was quite different from the PTO's current proposal, which attempts to limit both continuing applications and the number of examined claims.¹⁷¹ Sharp opposition to the 1998 proposed limitation on the number of claims in a patent application ultimately militated against its adoption.¹⁷²

E. *The Effect of the Administrative Procedure Act on PTO Rulemaking*

Touted as one of the "greatest inventions of modern government" for its rulemaking provisions, the Administrative Procedure Act had a dramatic effect on administrative agencies in the United States.¹⁷³ In order to thoroughly analyze the bounds of the PTO's rulemaking power, it is helpful to expound on the APA's applicability to the PTO.

1. The Informal Rulemaking Provisions of the APA

Section 553 of the APA¹⁷⁴ governs the primary vehicle for administrative agencies to promulgate new rules. The process of promulgating rules under this section is often referred to as "informal" or "notice and comment" rulemaking as distinguished from "formal" rulemaking, which is governed by sections 556 and 557 of the APA.¹⁷⁵ In addition to being subject to petition for amendment and repeal,¹⁷⁶ rules subject to the informal rulemaking provisions of the APA require notice of the proposed rulemaking by way of publication in the Federal Register and an opportunity for "interested persons" to participate in the rulemaking.¹⁷⁷ Agencies often satisfy the participation requirement by accepting and publishing comments submitted by the public.¹⁷⁸ "After consideration of the relevant matter presented," the agency must then incorporate a concise general statement into the rules of their "basis and purpose."¹⁷⁹

170. *Id.* at 53,508.

171. *See supra* Part I.B.

172. For the public comments to the rule changes, see U.S. Patent & Trademark Office, Comments on Advance Notice of Proposed Rulemaking, <http://www.uspto.gov/web/offices/pac/dapp/opla/comments/anpr/index.html> (last visited Jan. 31, 2007). For notice of the decision not to adopt the claim limit rule, see Changes to Implement the Patent Business Goals, 64 Fed. Reg. 53,772, 53,775 (Oct. 4, 1999).

173. Kenneth Culp Davis, *Administrative Law Text* 142 (3d ed. 1972).

174. The Administrative Procedure Act (APA) was codified in title 5 of the United States Code. *See* 5 U.S.C. §§ 551-559, 701-706 (2000).

175. Formal rulemaking is rulemaking that is "required by statute to be made on the record after opportunity for an agency hearing." *See id.* § 553(c).

176. *See id.* § 553(e).

177. *Id.* § 553(c).

178. For example, PTO notices of proposed rulemaking are regularly published in the Federal Register. *See supra* note 131 and accompanying text.

179. 5 U.S.C. § 553(c).

2. The PTO's Compliance with the APA Rulemaking Provisions

The Patent Office largely "anticipated the problem out of which the Administrative Procedure Act was born."¹⁸⁰ As Patent Commissioner Casper W. Ooms noted, "The Patent Office has consistently provided the applicant before it with a full measure of all the requisites of process that the Administrative Procedure Act insures."¹⁸¹ As such, the Patent Office outwardly changed little in its procedure in direct response to the APA.¹⁸² For example, the PTO had already regularly published proposed rule changes and solicited comments from the interested public prior to the enactment of the APA.¹⁸³

3. The Scope of APA Applicability to PTO Rules

Although preliminary drafts of the APA specifically excluded "the work of the Patent Office"¹⁸⁴ from APA requirements, it is now universally accepted that the PTO falls under the ambit of the APA as enacted by Congress.¹⁸⁵ For example, the APA defines an agency as an "authority of the Government of the United States, whether or not it is within or subject to review by another agency."¹⁸⁶ The APA defines a rule as "the whole or a part of an agency statement of general or particular applicability and future effect designed to implement, interpret, or prescribe law or policy or describing the organization, procedure, or practice requirements of an agency."¹⁸⁷ Surely, these broad definitions encompass the PTO and most, if not all, of the rules promulgated by the PTO. To eliminate any doubt, Congress expressly required that all PTO rules made pursuant to the PTO's statutory rulemaking authority comply with the APA's informal rulemaking provisions in 1999.¹⁸⁸

Courts may overturn agency rules for failing to comply with the informal rulemaking procedures of the APA.¹⁸⁹ Not all rules, however, are subject

180. Ooms, *supra* note 132, at 149.

181. *Id.*

182. *See id.* at 153.

183. *Id.*

184. Legislative History of the Administrative Procedure Act, S. Doc. No. 79-248, at 22 (1946).

185. *See, e.g., Dickinson v. Zurko*, 527 U.S. 150, 154 (1999) ("[T]he PTO is an 'agency' subject to the APA's constraints."); *Animal Legal Def. Fund v. Quigg*, 932 F.2d 920, 928 (Fed. Cir. 1991) (analyzing a PTO Notice under the informal rulemaking provisions of the APA).

186. 5 U.S.C. § 551(1) (2000).

187. *Id.* § 551(4).

188. The AIPA of 1999 amended the PTO's main rulemaking authority to provide that all rules adopted by the PTO "shall be made in accordance with section 553 of title 5." American Inventors Protection Act of 1999, Pub. L. No. 106-113, § 4712, 113 Stat. 1501 (codified as amended in scattered sections of 35 U.S.C.).

189. *See, e.g., Paulsen v. Daniels*, 413 F.3d 999, 1007-08 (9th Cir. 2005) (holding a codified interim regulation invalid for failing to comply with the notice and comment

to these provisions. For example, the APA includes an exception for "interpretative rules, general statements of policy, or rules of agency organization, procedure, or practice."¹⁹⁰

At least according to one Commissioner of the PTO, "It is extremely doubtful whether any of the rules formulated [by the PTO] . . . are other than 'interpretative rules, general statements of policy, . . . procedure, or practice.'"¹⁹¹ The language of the PTO's statutory grant of rulemaking authority would seem to concur.¹⁹² In addition, part 1 of title 37 of the C.F.R., where the PTO codifies its rules, is entitled "Rules of Practice in Patent Cases," which would tend to support this conclusion.¹⁹³ Due to the substantive effect¹⁹⁴ of some PTO rules, however, it is also extremely doubtful that all of the rules promulgated by the PTO today are exempt from the APA's informal rulemaking provisions.¹⁹⁵ Since the PTO regularly follows the informal rulemaking provisions of the APA,¹⁹⁶ whether or not the PTO is required to comply with the provisions may be purely an academic question. As discussed below, however, the substantive/interpretive rule dichotomy is important, although not dispositive, in delineating the bounds of the PTO's rulemaking authority.¹⁹⁷

F. *The Bounds of the PTO's Rulemaking Authority*

Although Congress may have intended to grant the PTO broad rulemaking power, this power is certainly not absolute. The key limits of the PTO's rulemaking authority lie in the language of the PTO's congressional rulemaking grant itself, as well as in the APA's judicial review provisions. Below, Part I.F.1 explores some of these limits imposed

provisions of the APA); *Shell Offshore Inc. v. Babbitt*, 238 F.3d 622, 630 (5th Cir. 2001) (invalidating a Department of Interior rule for failing to comply with the APA).

190. See 5 U.S.C. § 553(b)(A).

191. Ooms, *supra* note 132, at 153 (quoting 5 U.S.C. § 553 (b)(A)).

192. For example, the PTO's statutory rulemaking grant specifies that PTO rules shall "govern the conduct of proceedings." 35 U.S.C. § 2(b)(2)(A). This language seems akin to the "general statements of . . . procedure" language in the APA's informal rulemaking exemption, suggesting that at least rules promulgated pursuant to the PTO's statutory grant of rulemaking authority are exempt from the APA's informal rulemaking provisions. See 5 U.S.C. § 553(b)(A).

193. See 37 C.F.R. pt. 1 (2006).

194. There are several tests for determining when a rule is "substantive" or "legislative" and when a rule is "interpretive." See *infra* Part I.F.1.b.ii. Compare, e.g., *Shell Offshore Inc.*, 238 F.3d at 627-29 (noting that a substantive rule changes existing procedure, whereas an interpretive rule merely clarifies existing regulation), and *Animal Legal Def. Fund v. Quigg*, 932 F.2d 920, 927 (Fed. Cir. 1991) (explaining that a rule is substantive when it "effects a change in existing law or policy"), with *New York City Employees' Ret. Sys. v. SEC*, 45 F.3d 7, 12 (2d Cir. 1995) (observing that a legislative rule "create[s] new law, rights, or duties, in what amounts to a legislative act" (internal quotation marks omitted)).

195. For an analysis of the exceptions to the APA's informal rulemaking requirements, see Michelle J. Burke & Thomas G. Field, Jr., *Promulgating Requirements for Admission to Prosecute Patent Applications*, 36 IDEA 145, 151-56 (1995).

196. See *supra* notes 180-83 and accompanying text.

197. See *infra* Part I.F.1.b.ii.

by the statutory language of the PTO's general rulemaking authority. Part I.F.2 introduces the bounds of the PTO's rulemaking authority resulting from the APA's judicial review provisions.

1. The Language of the Statute

a. "*Not Inconsistent with Law*"

As previously mentioned, 35 U.S.C. § 2(b)(2) limits the PTO's rulemaking authority to establishing rules "not inconsistent with law."¹⁹⁸ Although commentators and courts have stated that a rule adopted by the PTO will have the effect of law unless inconsistent with statute,¹⁹⁹ the PTO's rulemaking authority is actually much more limited. The U.S. Court of Customs and Patent Appeals (CCPA) confirmed that PTO rules must not only be consistent with statute, but must also be consistent with established precedent.²⁰⁰ As noted by Director Herbert C. Wamsley, "The fact that PTO rules must be consistent with judge-made law as well as statutory law limits considerably the Commissioner's power to promulgate substantive rules, because a massive amount of judge-made law exists in the patent and trademark field."²⁰¹

The PTO's congressional grant to establish rules in 35 U.S.C. § 2(b)(2) is therefore much more narrow than it appears at first glance. Since any new rules adopted by the PTO must comply with both statute and precedent, the PTO must analyze both the language of the patent statute as well as judicial interpretations of the statute before adopting new rules; a proposed PTO rule that appears permissible solely on the face of the statute may infringe judicial holdings.

b. "*Conduct of Proceedings in the Office*"

In addition to specifying that PTO rules be "not inconsistent with law," the PTO's rulemaking authority also includes several other restrictions for PTO rules. For example, 35 U.S.C. § 2(b)(2) enumerates six

198. 35 U.S.C. § 2(b)(2) (2000).

199. See, e.g., 2 William C. Robinson, *The Law of Patents* 8-9 (Clark Boardman Co. 1971) (1890) (noting that PTO rules are "subordinate to the statutes, and if inconsistent with them are invalid, but otherwise are of the same obligation as the acts of Congress"); accord *In re Strain*, 187 F.2d 737, 741 (C.C.P.A. 1951) (finding that PTO rules "may not be lightly disregarded, nor . . . set aside unless found unreasonable and prejudicial to an inventor's rights under the statutes"); *Land v. Dreyer*, 155 F.2d 383, 386 (C.C.P.A. 1946) (holding that PTO rules, "when not inconsistent with the statutes from which they are derived," control the procedure in the PTO).

200. See, e.g., *In re Van Ornum*, 686 F.2d 937, 945-46 (C.C.P.A. 1982). The court analyzed Rule 321(b) as being consistent with both "statutory and case law." *Id.* at 945.

201. Herbert C. Wamsley, *The Rulemaking Power of the Commissioner of Patents and Trademarks* (pt. 2), 64 J. Pat. Off. Soc'y 539, 557 (1982).

subsections.²⁰² Four of these subsections begin with mandatory “shall” language, as opposed to permissive “may” language.²⁰³ These four clauses are correctly read as further limiting the broad grant of rulemaking authority found in 35 U.S.C. § 2(b)(2). The most important of these “shall” subsections is subsection (A), which provides that PTO rules established under this grant of authority “shall govern the conduct of proceedings in the Office.”²⁰⁴ As previously mentioned, Congress originally intended this language to restrict PTO rulemaking to matters regarding applicant interaction with the PTO.²⁰⁵

It is quite difficult, however, to determine how this subsection limits the PTO’s rulemaking authority today. To be sure, the PTO conducts numerous proceedings.²⁰⁶ The main proceeding in the PTO involves the back-and-forth process for obtaining a patent, called patent prosecution.²⁰⁷ Other PTO proceedings include the reexamination, reissue, appeal, interference, and public use proceedings.²⁰⁸ Surely, almost any rule that the PTO would care to adopt could be considered to govern the conduct of proceedings in the PTO. Fortunately, the Federal Circuit has provided

202. The six subsections are as follows:

The Office . . . may establish regulations, not inconsistent with law, which—

(A) shall govern the conduct of proceedings in the Office;

(B) shall be made in accordance with section 553 of title 5, United States Code;

(C) shall facilitate and expedite the processing of patent applications, particularly those which can be filed, stored, processed, searched, and retrieved electronically, subject to the provisions of section 122 relating to the confidential status of applications;

(D) may govern the recognition and conduct of agents, attorneys, or other persons representing applicants or other parties before the Office, and may require them, before being recognized as representatives of applicants or other persons, to show that they are of good moral character and reputation and are possessed of the necessary qualifications to render to applicants or other persons valuable service, advice, and assistance in the presentation or prosecution of their applications or other business before the Office;

(E) shall recognize the public interest in continuing to safeguard broad access to the United States patent system through the reduced fee structure for small entities under section 41(h)(1) of this title; and

(F) provide for the development of a performance-based process that includes quantitative and qualitative measures and standards for evaluating cost-effectiveness and is consistent with the principles of impartiality and competitiveness.

35 U.S.C. § 2(b).

203. Subsections (A), (B), (C), and (E) are “shall” clauses; subsection (D) is a “may” clause; subsection (F) is neither a “shall” nor a “may” clause. *See id.*

204. *Id.* § 2(b)(2)(A).

205. *See supra* note 116 and accompanying text.

206. *See, e.g.*, MPEP, *supra* note 23, § 2300 (interference proceedings); *id.* § 2209 (ex parte reexamination proceedings); *id.* § 2600 (inter partes reexamination proceedings); MPEP, *supra* note 23, § 720 (public use proceedings); *id.* § 1200 (appeal proceedings).

207. *See supra* note 23.

208. Reexamination proceedings are authorized by 35 U.S.C. §§ 302 and 311. Reissue proceedings are authorized by 35 U.S.C. § 251. Appeal proceedings are authorized by 35 U.S.C. § 134. Interference proceedings are authorized by 35 U.S.C. § 135. Public use proceedings are governed by 37 C.F.R. § 1.292.

some guidance as to the appropriate interpretation of this language in regard to PTO rulemaking.

i. *Animal Legal Defense Fund v. Quigg*

In *Animal Legal Defense Fund v. Quigg*, the Federal Circuit weighed in on the extent of the PTO's rulemaking authority.²⁰⁹ The Federal Circuit implied that the PTO does not have substantive rulemaking power, noting that a "substantive declaration . . . does not fall within the usual interpretation of [conduct of proceedings] statutory language."²¹⁰ This stance was contrary to the view of some commentators, who felt that Congress intended to give the PTO broad power and autonomy to administer the patent statute.²¹¹ The Federal Circuit disagreed, analogizing the PTO's rulemaking authority to the Equal Employment Opportunity Commission's (EEOC's) rulemaking authority found in 42 U.S.C. § 2000e-12(a).²¹² This section granted the EEOC the authority to "issue . . . suitable procedural regulations" to carry out the provisions of the equal employment opportunities statute.²¹³

After *Animal Legal Defense Fund*, there was still doubt as to the PTO's authority to adopt substantive rules.²¹⁴ The Federal Circuit put this doubt to rest in 1996 with an emphatic declaration that the PTO has no substantive rulemaking authority.²¹⁵ The court reiterated that "the broadest of the PTO's rulemaking powers . . . does NOT grant the Commissioner the authority to issue substantive rules."²¹⁶ The court went on to say that "Congress has not vested the Commissioner with any general substantive rulemaking power."²¹⁷ This declaration by the Federal Circuit seemed to put an end to the confusion regarding the PTO's authority to promulgate

209. See *Animal Legal Def. Fund v. Quigg*, 932 F.2d 920 (Fed. Cir. 1991) (holding that the PTO need not comply with the notice and comment provisions of the APA when issuing a notice stating that nonhuman living organisms were patentable subject matter).

210. *Id.* at 930.

211. See, e.g., Wamsley, *supra* note 201, at 556 ("This broader reading of [the PTO's rulemaking authority] would be upheld by most courts today. The Commissioner has power to promulgate rules on matters of substantive patent and trademark law.").

212. See *Gen. Elec. Co. v. Gilbert*, 429 U.S. 125, 141 & n.20 (1976) (confirming that Congress did not confer upon the Equal Employment Opportunity Commission authority to promulgate substantive regulations).

213. 42 U.S.C. § 2000e-12(a).

214. See, e.g., Craig Allen Nard, *Deference, Defiance, and the Useful Arts*, 56 Ohio St. L.J. 1415, 1453-56, 1453 nn.147-48 (1995) ("Although some commentators have asserted that the Commissioner's rulemaking authority is limited to issuing interpretive rules, the exact nature of the Commissioner's rulemaking power is unclear, at best."); *id.* at 1453.

215. *Merck & Co. v. Kessler*, 80 F.3d 1543, 1549-50 (Fed. Cir. 1996) (holding that a PTO Final Determination is not entitled to controlling deference because the PTO has no substantive rulemaking authority).

216. *Id.*

217. *Id.* at 1550.

substantive rules. What constitutes a substantive rule, however, is “far from crystal clear.”²¹⁸

ii. Substantive Versus Interpretive Rules

In *Animal Legal Defense Fund*, the Federal Circuit distinguished a “substantive” or legislative rule from an “interpretive” rule at length.²¹⁹ According to the court, a substantive rule must be promulgated pursuant “to statutory authority . . . and implement the statute” it administers.²²⁰ Other courts have noted that substantive rules are those “affecting individual rights and obligations”²²¹ or those that “create or destroy . . . legal rights.”²²² In contrast, an interpretive rule merely “clarifies or explains existing law or regulations”²²³ and does not adversely effect an individual’s rights or obligations. Interpretive rules, unlike substantive rules, “do not have the force of law,”²²⁴ but are still entitled to deference from the courts.²²⁵

Although the above distinctions are helpful, defining an agency rule or action as “substantive” or “interpretive” is sometimes arduous.²²⁶ A rule may appear interpretive on its face, while the specific application of the rule may be substantive.²²⁷ One court even found that an interpretive agency action “transubstantiated” from interpretive to substantive because of the specific application of the action.²²⁸

218. *New York City Employees’ Ret. Sys. v. SEC*, 843 F. Supp. 858, 873 (S.D.N.Y. 1994).

219. *Animal Legal Def. Fund v. Quigg*, 932 F.2d 920, 927-30 (Fed. Cir. 1991). Although the APA and some courts refer to “interpretative” rules, most courts use the legislative/interpretive or substantive/interpretive terminology. *See id.* at 931 (finding a PTO Notice “interpretative”); *New York City Employees’ Ret. Sys.*, 843 F. Supp. at 872 & n.22 (noting the distinction).

220. *Animal Legal Def. Fund*, 932 F.2d at 927 (quoting *Cubanski v. Heckler*, 781 F.2d 1421, 1426 (9th Cir. 1986)).

221. *Cubanski*, 781 F.2d at 1426 (quoting *Chrysler Corp. v. Brown*, 441 U.S. 281, 302 (1979)); *accord Animal Legal Def. Fund*, 932 F.2d at 929 (“One must also look for the adverse effect of that limitation on an individual’s rights and obligations.”).

222. *New York City Employees’ Ret. Sys. v. SEC*, 45 F.3d 7, 12 (2d Cir. 1995).

223. *Animal Legal Def. Fund*, 932 F.2d at 927; *see also New York City Employees’ Ret. Sys.*, 45 F.3d at 12; *Am. Hosp. Ass’n v. Bowen*, 834 F.2d 1037, 1045 (D.C. Cir. 1987).

224. *New York City Employees’ Ret. Sys.*, 45 F.3d at 12.

225. *Star Fruits S.N.C. v. United States*, 393 F.3d 1277, 1282 (Fed. Cir. 2005) (concluding that “[a]n agency’s interpretation of its own regulations is entitled to substantial deference”). For an analysis of how much deference, *see infra* Part I.F.2.c.

226. *See Cmty. Nutrition Inst. v. Young*, 818 F.2d 943, 946 (D.C. Cir. 1987) (collecting sources describing the confusion as “tenuous,” “fuzzy,” “blurred,” and “baffling”); *see also* Richard J. Pierce, Jr., *Administrative Law Treatise* § 6.4 (2002) (outlining the various tests for distinguishing between substantive and interpretive rules).

227. For example, an SEC no-action letter is typically considered an interpretive agency action, but the content of the letter may have some effect on its substantive/interpretive designation. *See, e.g., New York City Employees’ Ret. Sys.*, 45 F.3d at 13 (disagreeing with the district court’s opinion that an SEC no-action letter renouncing a former SEC rule is substantive).

228. *See id.*

Courts have devised several tests for classifying a rule as substantive or interpretive. For example, the U.S. District Court for the Southern District of New York grouped the relevant considerations into four distinct categories: "1) the effect of the agency's rule, 2) the agency's authority to adopt the rule, 3) the agency's method of devising the rule, and 4) the rule's regulatory history."²²⁹ The court noted that no one consideration is determinative and agreed with the conclusion of the U.S. Court of Appeals for the D.C. Circuit that the ultimate test is "an extraordinarily case-specific endeavor."²³⁰

To distinguish a substantive rule from an interpretive rule, the D.C. Circuit asks whether the rule has or is intended to have "legal effect."²³¹ According to the court, a rule has legal effect when any of the following tests are true:

- (1) whether in the absence of the rule there would not be an adequate legislative basis for enforcement action or other agency action to confer benefits or ensure the performance of duties, (2) whether the agency has published the rule in the Code of Federal Regulations, (3) whether the agency has explicitly invoked its general legislative authority, or (4) whether the rule effectively amends a prior legislative rule.²³²

Still other courts rely on the Attorney General's Manual on the APA,²³³ which includes the following working definitions:

Substantive rules—rules, other than organizational or procedural under section 3(a) (1) and (2), issued by an agency pursuant to statutory authority and which implement the statute, as, for example, the proxy rules issued by the Securities and Exchange Commission pursuant to section 14 of the Securities Exchange Act of 1934 (15 U.S.C. 78 n). Such rules have the force and effect of law.

Interpretative rules—rules or statements issued by an agency to advise the public of the agency's construction of the statutes and rules which it administers. . . .

General statements of policy—statements issued by an agency to advise the public prospectively of the manner in which the agency proposes to exercise a discretionary power.²³⁴

229. *New York City Employees' Ret. Sys. v. SEC*, 843 F. Supp. 858, 873 (S.D.N.Y. 1994).

230. *Id.* at 876 (quoting *Am. Hosp. Ass'n v. Bowen*, 834 F.2d 1037, 1045 (D.C. Cir. 1987)).

231. *Am. Mining Cong. v. Mine Safety & Health Admin.*, 995 F.2d 1106, 1112 (D.C. Cir. 1993) (outlining a test to distinguish between substantive or legislative rules and interpretive rules); see also Michael Asimow, *Public Participation in the Adoption of Interpretive Rules and Policy Statements*, 75 Mich. L. Rev. 520, 542 & n.95 (1977).

232. *Am. Mining Cong.*, 995 F.2d at 1112.

233. See Clark, *supra* note 132.

234. *Id.* § 4(a), at 30 n.3.

Regardless of the test or definition used, according to the Federal Circuit, substantive rulemaking is outside the scope of the PTO's rulemaking authority.²³⁵ This Note presents a more expansive reading of the PTO's rulemaking authority in Part III.A.

2. Judicial Review of PTO Actions Under the APA

The U.S. Supreme Court has stated that "the courts are the final authorities on issues of statutory construction. They must reject administrative constructions of the statute, whether reached by adjudication or by rulemaking, that are inconsistent with the statutory mandate or that frustrate the policy that Congress sought to implement."²³⁶ To this end, the APA provides extensive judicial review of "agency action, findings, and conclusions."²³⁷

Section 706 of the APA provides that a "reviewing court shall . . . hold unlawful and set aside agency action, findings, and conclusions found to be—(A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law . . . [or] (C) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right."²³⁸ Thus, section 706 gives reviewing courts several avenues to set aside PTO rules. For example, this section requires reviewing courts to set aside a PTO rule if the rule is in excess of statutory authority, or namely, in excess of 35 U.S.C. § 2(b)(2). This section also requires reviewing courts to set aside arbitrary or capricious PTO rules.

a. *Dickinson v. Zurko: The Arbitrary and Capricious Standard*

Section 706 of the APA applies absent an exception. One such exception lies in section 559 of the APA. This provision states that the APA "do[es] not limit or repeal additional requirements . . . recognized by law."²³⁹ Thus, if the law already recognized a standard of judicial review before the enactment of the APA, this standard of review may preempt the APA's standard set forth in section 706.

This issue was explored in *Dickinson v. Zurko*,²⁴⁰ where the Supreme Court held that the appropriate standard for review for PTO fact-finding is not the clearly erroneous standard, as previously urged by the Federal

235. See *supra* notes 210-17 and accompanying text.

236. *FEC v. Democratic Senatorial Campaign Comm.*, 454 U.S. 27, 32 (1981); see also *Astra v. Lehman*, 71 F.3d 1578, 1580 (Fed. Cir. 1995) (upholding the plain meaning of the patent term extension statute). While the interpretation by the PTO of a statute it administers is entitled to deference, see *infra* Part I.F.2.c for how much deference.

237. 5 U.S.C. § 706(2) (2000). "Agency actions" are defined broadly under the APA to include "the whole or a part of an agency rule, order, license, sanction, relief, or the equivalent or denial thereof, or failure to act." *Id.* § 551(13).

238. *Id.* § 706.

239. *Id.* § 559.

240. 527 U.S. 150 (1999).

Circuit,²⁴¹ but rather the “arbitrary and capricious” or “substantial evidence” standard (a more deferential standard).²⁴² Although *Dickinson* dealt with PTO fact-finding, not rulemaking, because of the dearth of cases involving judicial review of PTO rulemaking, it is almost certain that a contrary standard of review for PTO rulemaking was not recognized before the enactment of the APA. The appropriate standard for judicial review as applied to PTO rulemaking, therefore, is also the “arbitrary and capricious” standard.

Defining this standard is difficult. One court noted that the standard must be applied on a case-by-case basis, analyzing the “sufficiency of an agency’s stated reasons” for reaching its conclusions.²⁴³ The Supreme Court’s arbitrary and capricious test is much more lenient, only asking “whether the decision was based on a consideration of the relevant factors and whether there has been a clear error of judgment.”²⁴⁴

b. The APA “Hard Look” Standard

Section 706 of the APA also states that “the [reviewing] court shall review the whole record.”²⁴⁵ The Supreme Court held that this provision requires a reviewing court to “engage in a substantial inquiry” and perform a “probing, in-depth review.”²⁴⁶ Only after taking a hard look at the PTO’s justification for a new rule can a reviewing court determine if a PTO rule should be overturned. The Court emphasized, however, that “the ultimate standard of [agency] review is a narrow one. The court is not empowered to substitute its judgment for that of the agency.”²⁴⁷ Because court intervention can be highly intrusive to an agency’s operations, the reasons for overturning an agency rule under the APA must be clear and beyond doubt.

241. See *In re Zurko*, 142 F.3d 1447, 1459 (Fed. Cir. 1998), *rev’d sub nom. Dickinson*, 527 U.S. 150.

242. The Court admits that there is disagreement about which of these APA standards to apply, but does not distinguish between the two. *Dickinson*, 527 U.S. at 158. In fact, one court found no distinction. See *Ass’n of Data Processing Serv. Orgs., Inc. v. Bd. of Governors of Fed. Reserve Sys.*, 745 F.2d 677, 683-84 (D.C. Cir. 1984) (noting that the arbitrary and capricious provision is a “catchall” and that there is no substantial difference between the two standards). Typically, however, courts have found that the substantial evidence standard of review “provides for more rigorous scrutiny” than the arbitrary and capricious standard. *AFL-CIO v. Marshall*, 617 F.2d 636, 649 (D.C. Cir. 1979); *accord Abbott Labs. v. Gardner*, 387 U.S. 136, 143 (1967) (concluding that a substantial evidence standard allows for “considerably more generous judicial review”).

243. *Troy Corp. v. Browner*, 120 F.3d 277, 284 (D.C. Cir. 1997) (holding that the EPA acted arbitrarily and capriciously in listing a chemical on the Toxic Release Inventory without further explanation of its departure from agency precedent).

244. *Citizens to Preserve Overton Park, Inc. v. Volpe*, 401 U.S. 402, 416 (1971) (reviewing a decision by the Secretary of Transportation to construct a highway through a public park).

245. 5 U.S.C. § 706 (2000).

246. *Overton Park*, 401 U.S. at 415.

247. *Id.* at 416.

c. *Chevron Deference*

Courts will accord “considerable weight”²⁴⁸ to an agency’s interpretation of a statute so long as the interpretation is “reasonable and consistent with the statutory purpose.”²⁴⁹ As such, reviewing courts generally defer to agency rules. Not all agency rules, however, are afforded equal deference. According to the Supreme Court in *Chevron*, the level of deference depends on the agency’s legislative delegation of rulemaking authority.²⁵⁰ If Congress has expressly delegated the agency authority to create rules interpreting a statute, then a reviewing court should give the agency’s interpretations “controlling weight unless they are arbitrary, capricious, or manifestly contrary to the statute.”²⁵¹ If the legislative delegation of authority is implicit, rather than express, the agency’s interpretation of the statute will be upheld only if reasonable.²⁵²

Although the Supreme Court provided deference guidelines for agency actions in *Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, it is easy to interpret the guidelines too broadly. For example, in *Merck & Co. v. Kessler*, the PTO urged the Federal Circuit to give controlling weight to a PTO action under the familiar *Chevron* rubric.²⁵³ The Federal Circuit refused to afford the action controlling weight stating that “only statutory interpretations by agencies with rulemaking powers deserve substantial deference.”²⁵⁴ More specifically, the Federal Circuit stated that only agencies “authorized . . . to promulgate substantive rules under a statute it is charged with administering” are entitled to *Chevron* deference.²⁵⁵ Instead, the *Merck* court afforded the PTO action deference resulting from “the thoroughness . . . and validity”²⁵⁶ of the agency’s reasoning—a *Skidmore*-type deference.²⁵⁷ Thus, the amount of deference afforded to a PTO rule is

248. *Chevron U.S.A. Inc. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837, 844 (1984).

249. *Troy Corp. v. Browner*, 120 F.3d 277, 285 (D.C. Cir. 1997); *see also Chevron*, 467 U.S. at 843-44; *City of Cleveland v. U.S. Nuclear Regulatory Comm’n*, 68 F.3d 1361, 1367 (D.C. Cir. 1995) (affirming a judgment of the Nuclear Regulatory Commission denying petitioners’ applications to suspend antitrust conditions).

250. *Chevron*, 467 U.S. at 844.

251. *Id.*

252. *See id.* at 844 (“[A] court may not substitute its own construction of a statutory provision for a reasonable interpretation made by the administrator of an agency.”).

253. *See Merck & Co. v. Kessler*, 80 F.3d 1543, 1549 (Fed. Cir. 1996) (reviewing a PTO “Final Determination” that held that a patent granted before June 8, 1995 was not entitled to a restorative patent term extension added to the end of the 20-year patent term).

254. *Id.* (quoting *Atchison, Topeka and Santa Fe Ry. Co. v. Pena*, 44 F.3d 437, 441 (7th Cir. 1994)); *see also Pierce*, *supra* note 226, § 6.3, at 332.

255. *Merck*, 80 F.3d at 1549; *accord Pierce*, *supra* note 226, § 6.3, at 327 (“[T]he *Chevron* test does not apply to interpretative rules.”).

256. *Merck*, 80 F.3d at 1550.

257. This is surely a much lower level of deference than *Chevron*. *See Skidmore v. Swift & Co.*, 323 U.S. 134, 140 (1944) (“We consider that the rulings, interpretations and opinions of the Administrator under this Act, while not controlling upon the courts by reason of their authority, do constitute a body of experience and informed judgment to which courts and litigants may properly resort for guidance. The weight of such a judgment in a particular case will depend upon the thoroughness evident in its consideration, the validity of its

rule-specific and depends on whether the rule was a valid exercise of the PTO's statutory rulemaking authority.

II. THE PTO RULEMAKING DEBATE: DIVERGENT PRIORITIES LEAD TO CONTRARY CONCLUSIONS REGARDING THE PTO'S AUTHORITY TO PROMULGATE THE NEW RULES

This part details the debate surrounding the PTO's statutory authority for adopting the two proposed rules. On one hand, the PTO claims the new rules are not literally inconsistent with any provisions of the patent statute and are necessary to control the mounting backlog of unexamined applications.²⁵⁸ On the other hand, the majority of patent applicants feel the proposed rules go too far, and some even argue that the new rules are inconsistent with statute, precedent, and clear congressional intent.²⁵⁹

A. *The Continuing Application Rule*

This section describes the arguments for and against the validity of the proposed continuing application rule. Part II.A.1 outlines patent applicants' contention that the proposed rule is in excess of the PTO's statutory rulemaking authority. Part II.A.2 details the PTO's counterarguments for upholding the proposed rule.

1. The Applicants' Offensive: The Continuing Application Rule Is Inconsistent with Both Statute and Established Precedent

Patent applicants insist that the revised rule would drastically limit the rights provided to them under 35 U.S.C. §§ 120, 121, and 365(c) to claim the benefit of an earlier-filed application.²⁶⁰ According to many patent applicants, they are virtually stripped of their ability to file continuing applications and receive continued examination of an application without meeting a rigorous "could not have been previously submitted" standard—a standard that would be rarely met.²⁶¹ Opponents of the proposed rule insist

reasoning, its consistency with earlier and later pronouncements, and all those factors which give it power to persuade, if lacking power to control."); Pierce, *supra* note 226, § 6.3, at 330-31.

258. See *infra* Part II.A.2, B.2.

259. See *infra* Part II.A.1, B.1.

260. See, e.g., AIPLA Continuation Comments, *supra* note 31, at 6.

261. See *id.*; Letter from E. Anthony Figg, Chair, Am. Bar Ass'n., Section of Intellectual Prop. Law, to Honorable Jon Dudas, Under Sec'y of Commerce for Intellectual Prop. & Dir. of the U.S. Patent and Trade Office 3 (May 3, 2006), available at http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_continuation/aba.pdf (describing the standard as "too stringent and unrealistic"). But see the examples of the rare situations where the standard would be met in U.S. Patent & Trademark Office, PTO Town Hall Presentation Materials, <http://www.uspto.gov/web/offices/pac/dapp/opla/presentation/chicagoslides.html> (last visited Jan. 31, 2007) [hereinafter Town Hall Presentation].

that the PTO has overstepped its authority because the proposed rule infringes patent applicants' rights guaranteed by the patent statute.²⁶²

a. *The Clear and Unambiguous Language of 35 U.S.C. § 120*

Opponents of the rule contend that the proposed continuing application rule runs afoul of various statutory provisions that permit an applicant to claim the benefit of an earlier-filed application. For example, section 120 of the patent statute provides the primary means for filing a continuation application in the United States.²⁶³ This section states that an application "shall have the same effect, as to such invention, as though filed on the date of the prior application."²⁶⁴ The language of sections 121 and 365(c) are just as clear: An application "shall be entitled" to the benefit of the earlier filed application.²⁶⁵ According to opponents of the proposed rule, these provisions leave no room for qualification. The Supreme Court has stated that "[a] party seeking a right under the patent statutes may avail himself of all their provisions These are questions not of natural but of purely statutory right."²⁶⁶ By limiting the number of continuing applications, the PTO has impermissibly denied applicants the statutory right to file continuing applications under the patent statute in certain circumstances.

Opponents of the proposed rule also cite various canons of statutory construction to support their position. For example, "[a] fundamental canon of statutory construction is that . . . words will be interpreted as taking their ordinary, contemporary, common meaning."²⁶⁷ The plain meaning of the statutory "shall" language found in sections 120, 121, and 365(c) of the patent statute, according to opponents of the rule, is correctly construed as permitting no discretion as to the number of patent applications that may be filed under these sections;²⁶⁸ therefore, the proposed rule's refusal to accept an application complying with the terms of these sections is expressly contrary to statute.

262. See, e.g., AIPLA Continuation Comments, *supra* note 31, at 7.

263. See 35 U.S.C. § 120 (2000). The term "continuing application" refers to any application claiming the benefit of an earlier-filed non-provisional patent application. A "continuation" application is just one of these types of applications. See *supra* note 78 and accompanying text.

264. 35 U.S.C. § 120.

265. 35 U.S.C. §§ 121, 365(c).

266. *United States v. Am. Bell Tel. Co.*, 167 U.S. 224, 247 (1897).

267. *Perrin v. United States*, 444 U.S. 37, 42 (1979) (looking to the ordinary meaning of bribery rather than the narrower common-law meaning in affirming a conviction under the Travel Act); see also *LSI Computer Sys., Inc. v. U.S. Int'l Trade Comm'n*, 832 F.2d 588, 590 (Fed. Cir. 1987) (analyzing the plain meaning of the word "person" in the Tariff Act of 1930).

268. See, e.g., AIPLA Continuation Comments, *supra* note 31, at 6-7.

b. Controlling Precedent

As explained above, rules adopted by the PTO must be consistent with both statute and precedent.²⁶⁹ The Supreme Court's holding in *Godfrey v. Eames*²⁷⁰ was congruous with a line of CCPA precedent that followed, suggesting that the PTO has no statutory authority to limit the number of continuing applications claiming the benefit of an original application.²⁷¹

For example, the CCPA found in *In re Hogan* that the language of section 120 is "clear and unambiguous" and that there is no room for discretion on the part of the PTO.²⁷² The PTO must accept an application filed under section 120 and accord it the filing date of the parent application. The CCPA also held in a separate case that "under [section 120] of the statute . . . there is no statutory basis for fixing an arbitrary limit to the number of prior applications."²⁷³ According to opponents of the rule, in light of this CCPA precedent, the PTO will overstep its statutory authority by adopting the proposed continuing application rule.²⁷⁴

The Federal Circuit has followed the CCPA. In 1989, the court held that "[i]n our view, § 120 gives to any applicant for a patent *complying with its terms* the right to have the benefit of the filing date of an earlier application. The language is mandatory."²⁷⁵ It is clear, therefore, that both the Federal Circuit and its predecessor maintained that applicants have the statutory right to file continuing applications so long as the applicants meet the other provisions of the statute.²⁷⁶ Opponents of the rule insist that there is no room for qualification or discretion when faced with a clear statutory right such as that provided by section 120.²⁷⁷

Opponents of the rule also argue that the PTO's suggestion of misuse²⁷⁸ of the patent system through unlimited continuing applications is

269. See *supra* notes 198-201 and accompanying text.

270. 68 U.S. (1 Wall.) 317 (1863); see *infra* notes 283-86 and accompanying text.

271. See, e.g., *In re Hogan*, 559 F.2d 595, 603 (C.C.P.A. 1977) (holding that the written description requirement should be tested as of the earliest effective filing date in a chain of continuing patent applications); *In re Henriksen*, 399 F.2d 253, 258-60 (C.C.P.A. 1968) (noting that there is no basis for fixing a limit to the number of continuing applications an applicant may file); see also *Transco Products, Inc. v. Performance Contracting, Inc.*, 38 F.3d 551, 562 (Fed. Cir. 1994) (reversing a district court decision requiring applicants to update the best mode disclosure when filing a continuing application).

272. *In re Hogan*, 559 F.2d at 604.

273. *In re Henriksen*, 399 F.2d at 254.

274. See, e.g., AIPLA Continuation Comments, *supra* note 31, at 6-7.

275. *Racing Strollers Inc. v. Tri Indus. Inc.*, 878 F.2d 1418, 1421 (Fed. Cir. 1989).

276. Section 120 requires that the continuing application be (1) filed "before the patenting or abandonment" of the prior application by an inventor or inventors named in the prior application, (2) be amended to contain a specific reference to the prior application, and (3) comply with § 112. See 35 U.S.C. § 120 (2000).

277. See, e.g., AIPLA Continuation Comments, *supra* note 31, at 6-7.

278. See Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48, 49 (proposed Jan. 3, 2006) (to be codified at 37 C.F.R. pt. 1) ("[A]pplicants have misused continued examination practice . . . in order to simply delay the conclusion of examination.").

misguided.²⁷⁹ Although unlimited continuing application filings have some undesirable results,²⁸⁰ courts are not reluctant to equitably restrict the number of continuation applications, particularly when accompanied by a showing of "misuse of the . . . patent system."²⁸¹ Opponents of the rule believe that because the courts already have the tools to limit continuing applications, the PTO's implication that the new continuing application rule will thwart misuse of the patent system is unfounded and does little to advance the PTO's justification for adopting the rule.²⁸²

c. Congressional Intent

Assuming *arguendo* that the proposed rule is not literally inconsistent with statute or precedent, opponents of the proposed rule argue that it is certainly inconsistent with congressional intent. As noted in commentary published with the Patent Act of 1952,²⁸³ section 120 was codified in response to the Supreme Court's ruling in *Godfrey v. Eames*.²⁸⁴ In *Godfrey*, the Court held that continuing applications should be considered "the same transaction, and both as constituting one continuous application, within the meaning of the law."²⁸⁵ Opponents of the new continuing application rule insist that if Congress intended continuing applications to be part of the same transaction as the original application, any limit on the number of continuing applications would be inapposite to Congress's intention.²⁸⁶

Opponents of the proposed rule also present another cogent argument regarding the intent of Congress. Their most persuasive evidence is a bill that Congressman Lamar Smith introduced in the House of Representatives (but was never enacted) called the Patent Reform Act of 2005.²⁸⁷ One amendment proposed by the Patent Reform Act of 2005 added a new section 123 to the patent statute that would give the PTO the express authority to limit the number of continuing applications.²⁸⁸ More

279. See, e.g., AIPLA Continuation Comments, *supra* note 31, at 5.

280. See *supra* note 95 and accompanying text.

281. *Symbol Tech. Inc. v. Lemelson Med., Educ. & Research Found.*, 422 F.3d 1378, 1385 (Fed. Cir. 2005) (upholding the equitable defense of laches in a patent infringement suit); see also *In re Bogese II*, 303 F.3d 1362 (Fed. Cir. 2002) (affirming a board decision that an applicant forfeited a patent due to dilatory tactics).

282. See, e.g., AIPLA Continuation Comments, *supra* note 31, at 6.

283. P. J. Federico, *Commentary on the New Patent Act*, 75 J. Pat. & Trademark Off. Soc'y 161, 192 (1993) (reprinting the commentary from 35 U.S.C.A. (1954)).

284. 68 U.S. (1 Wall.) 317 (1863).

285. *Id.* at 326.

286. The commentary published with the Patent Act of 1952 recognized that "[c]ontinuing applications are utilized in a number of different situations." Federico, *supra* note 283, at 194. The commentary, however, is silent as to whether an applicant is entitled to file an unlimited number of continuing applications. *Id.*

287. See Patent Reform Act of 2005, H.R. 2795, 109th Cong. (1st Sess. 2005). For an analysis of The Patent Reform Act of 2005, see *Patent Bill Includes First-Inventor-to-File, Post-Grant Opposition Procedure Provisions*, 70 Pat. Trademark & Copyright J. 142 (2005).

288. See Patent Reform Act, H.R. 2795.

specifically, the new section was entitled "Limitations on continuation applications" and read, "The Director may by regulation limit the circumstances under which an application for patent . . . may be entitled to the benefit under section 120 of the filing date of a prior-filed application."²⁸⁹

Opponents of the rule argue that if Congress had already authorized the PTO to limit the number of continuing applications an applicant may file, then the new section 123 in the Patent Reform Act of 2005 would have been superfluous.²⁹⁰ This strongly suggests that, at least in the eyes of the legislature, the PTO currently has no power to limit continuing applications. Since Congress did not intend to give the PTO the ability to limit continuing applications, only a statutory amendment can authorize the PTO to do so. Some commentators have agreed.²⁹¹

The Patent Reform Act of 2005 portended a potential pitfall in limiting the number of continuing applications—a pitfall that the PTO has failed to address in the new continuing application rule. Section 123 of the Patent Reform Act also included a provision for protecting the ability of applicants to obtain comprehensive patent protection for their inventions.²⁹² Immediately after giving the PTO the power to limit continuing applications, the bill included a provision stating that "[n]o such regulation may deny applicants an adequate opportunity to obtain claims for any invention disclosed in an application for patent."²⁹³ This provision in the bill anticipated the main concern of opponents of the PTO's new continuing application rule: namely, that applicants will not be able to obtain comprehensive patent protection for their inventions under the new rule.²⁹⁴

2. The PTO's Response: An Expansive View of 35 U.S.C. § 2(b)(2)

In contrast to the view of many patent applicants, the PTO advances an expansive reading of its rulemaking authority. According to the PTO, the Office has "the inherent authority" to ensure that applicants do not abuse the patent system.²⁹⁵ Thus, the PTO sees itself as a quasi-regulatory agency empowered to adopt rules promoting the good faith of applicants conducting business with the PTO. The PTO also believes that the new

289. *Id.* § 8.

290. *See, e.g.*, Letter from N.Y. Intellectual Prop. Law Ass'n (NYIPLA) to the U.S. Patent & Trademark Office 4-5 (May 3, 2006), *available at* http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_continuation/nyipla.pdf.

291. *See, e.g.*, Lemley & Moore, *supra* note 93, at 107 ("Limiting the number of continuations that can be filed may require an act of Congress.").

292. Patent Reform Act, H.R. 2795, § 8.

293. *Id.*

294. *See supra* note 31 and accompanying text.

295. Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48, 50 (proposed Jan. 3, 2006) (to be codified at 37 C.F.R. pt. 1).

continuing application rule is not literally inconsistent with either statute or precedent.²⁹⁶

a. *Constructive Versus Actual Limits on the Number of Continuing Applications*

The PTO admits it “is aware of case law which suggests the Office has no authority to place an absolute limit on the number of . . . continuing applications.”²⁹⁷ Nevertheless, the PTO contends that applicants do not have “an unfettered right” to file an unlimited number of continuing applications.²⁹⁸ Although sections 120, 121, and 365(c) use obligatory “shall” language rather than the more permissive “may” language, the PTO sees nothing wrong with limiting the number of continuing applications filed under these sections.²⁹⁹

The PTO clearly distinguishes the proposed continuing application rule from an attempt to place an absolute bar on continuing applications.³⁰⁰ In fact, according to the PTO, the new rule places no limit on the number of continuing applications.³⁰¹ Rather, the rule merely requires a showing before an applicant can file additional continuing applications. This showing would prevent applicants from submitting “unnecessarily delayed evidence, arguments, or amendments that could have been presented earlier.”³⁰²

The PTO also reconciles the proposed continuation rule with the CCPA and Federal Circuit precedent quite easily. According to the PTO, the reason why courts have disfavored limiting continuing applications in the past was because the PTO had not promulgated any rules to that effect before attempting to limit continuing applications.³⁰³ In addition, there was no “adequate notice of, or an opportunity to respond to, the *ad hoc* limits imposed.”³⁰⁴ In the PTO’s view, these differences might cause the Federal Circuit to uphold the new rule today.³⁰⁵

b. *Drastic Times Call for Drastic Measures*

The PTO’s reasons for adopting the new continuing application rule are clear: Excessive continuing applications have a “crippling effect” on the

296. See *infra* notes 298-305 and accompanying text.

297. Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. at 50.

298. *Id.*

299. *Id.*

300. *Id.*

301. *Id.* (“The Office does not attempt that here. No limit is placed on the number of continuing applications.”).

302. *Id.*

303. *Id.*

304. *Id.*

305. See *id.* at 50-51.

PTO's ability to examine new application filings.³⁰⁶ If examiner resources were diverted from examining continuing applications to examining the backlog of unexamined original applications, the PTO might be able to control application pendency. The PTO cites statistics which indicate that it might have examined as many as 35,000 additional original applications if applicants had not filed any continuing applications.³⁰⁷

In addition to increasing examination efficiency, the proposed rule would serve other important purposes. For example, faster examination would result in a shorter time to issuance, which, in turn, would lead to earlier public notice of issued patent claims. Earlier public notice of issued claims helps assure the public that they are aware of the extent of limited monopoly rights in others as soon as possible.³⁰⁸ This awareness may hasten innovation in the form of improvements and "design-arounds."³⁰⁹

More importantly, according to the PTO, the new rule reduces the potential of additional claims issuing on the same invention in continuing applications.³¹⁰ This eases public confusion over the true scope of the claimed invention. For example, the practice of keeping an application "alive" in a patent family allows an applicant to tailor claims to cover a new product that is not literally infringing under an issued set of patent claims.³¹¹ Under current PTO practice, an applicant may present new claims in a continuing application so long as the claims find support in the originally filed application.³¹² This practice, according to the PTO, is hampering examination efficiency and, if left to continue, will hurt

306. *Id.* at 49.

307. *Id.* at 50.

308. See Lemley & Moore, *supra* note 93, at 107 ("Multiple continuations can be harmful in another way: they confuse the public.").

309. A "design-around" is a deliberate attempt to circumvent the limited monopoly right a patent affords by implementing the invention so that it does not infringe a patent claim. Although design-arounds are discouraged by the patent community, they are generally seen as innovative and encouraged by courts. See Matthew D. Powers & Steven C. Carlson, *The Evolution and Impact of the Doctrine of Willful Patent Infringement*, 51 *Syracuse L. Rev.* 53, 56 (2001) ("The public . . . is encouraged to learn from the patent, and to 'design around' it by modifying the technology disclosed by the patent. This conduct is encouraged because it advances science by building on and extending patented technology."); see also *State Indus., Inc. v. A.O. Smith Corp.*, 751 F.2d 1226, 1235-36 (Fed. Cir. 1985) ("[K]eeping track of a competitor's products and designing new and possibly better or cheaper functional equivalents is the stuff of which competition is made and is supposed to benefit the consumer.").

310. See *Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims*, 71 *Fed. Reg.* at 50.

311. The practice of amending claims to cover infringing products in the marketplace is perfectly fair and legal, according to the Federal Circuit. See *Kingsdown Med. Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 874 (Fed. Cir. 1988) ("[T]here is nothing improper, illegal or inequitable in filing a patent application for the purpose of obtaining a right to exclude a known competitor's product from the market.").

312. See 35 U.S.C. § 112 (2000).

applicants and the PTO.³¹³ The PTO maintains that the new continuing application rule is a reasonable and justified solution to these problems.

c. 35 U.S.C. § 101

The PTO may even have some statutory support for the proposed continuing application rule. Patent practitioners are familiar with section 101 of the patent statute as the statutory provision containing the classes of statutory subject matter.³¹⁴ But section 101 also states that an applicant “may obtain a patent”³¹⁵ for an invention; thus, section 101 implies that an applicant is only entitled to a single patent for a single invention.³¹⁶ This reasoning is already the chief justification for the PTO’s common terminal disclaimer practice,³¹⁷ which requires an applicant to submit a disclaimer that dedicates to the public the terminal portion of the full statutory term of any patent issuing on an application with claims that are “obvious variations”³¹⁸ of the claims of another one of the applicant’s applications or patents.³¹⁹

Applying this analysis to the proposed continuing application rule, the PTO may argue that an applicant is not entitled to an unlimited number of patents on a single invention under 35 U.S.C. § 101; rather, the statute entitles an applicant to a single patent containing all the claims directed toward the applicant’s invention. Any additional patents are solely discretionary.

B. The Claim Designation Rule

This section describes the arguments for and against the validity of the proposed claim designation rule. Part II.B.1 argues that the proposed rule is inconsistent with statute and judicial dicta. Part II.B.2 details the PTO’s counterarguments for upholding the proposed rule.

313. See Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. at 50 (“[C]urrent continued examination practice and the filing of multiple applications containing patentably indistinct claims are impairing the Office’s ability to examine new applications without real certainty that these practices effectively advance prosecution, improve patent quality, or serve the typical applicant or the public.”).

314. The four statutory classes of patentable subject matter are process, machine, manufacture, and composition of matter. See 35 U.S.C. § 101; 1 Donald S. Chisum, *Chisum on Patents* § 1.01 (1997).

315. 35 U.S.C. § 101 (emphasis added).

316. See, e.g., *In re Goodman*, 11 F.3d 1046, 1052 (Fed. Cir. 1993) (noting that under section 101 an inventor is “entitled to a single patent for an invention”).

317. A terminal disclaimer is most typically submitted to obviate a non-statutory obviousness-type double patenting rejection. See MPEP, *supra* note 23, § 804 (explaining the differences between statutory and non-statutory double patenting rejections); see also 3A Chisum, *supra* note 314, §§ 9.03-.04.

318. *In re Vogel*, 422 F.2d 438, 441 (C.C.P.A. 1970).

319. The terminal disclaimer may disclaim the terminal portion of the term beyond one or more patents or one or more applications. See *id.* at 441-42; MPEP, *supra* note 23, § 804.

1. The PTO Has Exceeded Its Authority by Failing To Examine Applications Fully

In addition to raising validity concerns during the enforcement process, according to opponents of the proposed claim designation rule, ignoring claims for which search and examination fees have been paid raises serious statutory concerns.³²⁰ The PTO has an obligation under 35 U.S.C. §§ 131 and 132 to examine a patent application and “the alleged new invention,”³²¹ and whenever a claim is rejected, to notify the applicant of the reasons for rejection.³²² By failing to examine each and every claim in an application, the PTO is failing to examine fully an applicant’s alleged invention as required by the statute.

For example, it is common for an applicant to recite broadly the applicant’s invention in the independent claims and recite additional elements or features of the invention in the dependent claims.³²³ It is more likely that one of the applicant’s dependent claims constitutes a patentable invention than one of the applicant’s independent claims because a dependent claim includes all of the limitations of its respective independent claim plus some new limitation.³²⁴ If the PTO does not initially examine many of the applicant’s dependent claims because the applicant has not designated them under the new rule, the applicant may lose the opportunity to receive a patent on the claimed invention, even though some of the claims in the application were patentable.³²⁵ Designating patentable claims for initial examination may be a difficult feat for applicants because they may not know at the time of filing which claims are more likely to meet the requirements of the patent statute.³²⁶

320. See, e.g., AIPLA Claims Comments, *supra* note 106, at 4-5.

321. Section 131 reads, in relevant part, “The Director shall cause an examination to be made of the application and the alleged new invention.” 35 U.S.C. § 131 (2000).

322. Section 132 requires that “[w]henver, on examination, any claim for a patent is rejected, or any objection or requirement made, the Director shall notify the applicant thereof, stating the reasons for such rejection, or objection or requirement, together with such information and references as may be useful in judging of the propriety of continuing the prosecution of his application.” 35 U.S.C. § 132(a).

323. See generally Faber, *supra* note 45, § 11.

324. MPEP, *supra* note 23, § 608.01(n) (“[A] dependent claim is directed to a combination including everything recited in the base claim and what is recited in the dependent claim. It is this combination that must be compared with the prior art, exactly as if it were presented as one independent claim.”).

325. For example, a dependent claim adding a limitation not found in the prior art would be allowable if rewritten in independent form to include all the limitations of its respective independent base claim and any intervening claims. See MPEP, *supra* note 23, § 707.07(j); see also Letter from the NYIPLA to the U.S. Patent & Trademark Office (May 3, 2006), Cmt. B1, available at http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fpp_claims/nyipla.pdf.

326. For example, an applicant may not be aware of prior art at the time of filing that destroys the novelty of one or more of the applicant’s claims.

Moreover, it is expressly the PTO's duty, not the duty of patent applicants, to examine applications and discover prior art.³²⁷ To be sure, most applicants believe their inventions, including all of their claims, are patentable when they file patent applications.³²⁸ According to opponents of the rule, by requiring an ESD, the PTO has impermissibly shifted the burden of discovering potentially invalidating prior art to the applicant, a burden that was not contemplated by the patent statute.³²⁹ For example, it is well-settled that the patent examiner, not the applicant, bears the initial burden of establishing a *prima facie* case of unpatentability.³³⁰ In addition, the PTO is going against judicial dicta suggesting that an applicant should be allowed to determine the number and scope of claims presented in a patent application, provided the requisite fees are paid.³³¹

2. The Examination of Applications Is Squarely Within the PTO's Discretion

The PTO argues that limiting the number of claims for initial examination falls within its rulemaking powers.³³² According to the PTO, the internal mechanics of claim examination clearly govern the "conduct of proceedings in the Office."³³³ In addition, placing limits on claim examination does not literally conflict with any statute or contradict any case law. Applications will still be examined in accordance with 35 U.S.C. § 131, and applicants will still be notified of claim rejections in accordance with 35 U.S.C. § 132.

327. See 35 U.S.C. § 131.

328. In fact, a patent applicant is required to submit an oath or declaration that "[s]tate[s] that the person making the oath or declaration believes the named inventor or inventors to be the original and first inventor or inventors of the subject matter which is claimed and for which a patent is sought." 37 C.F.R. § 1.63 (2006).

329. Although actively discovering prior art may not be contemplated by statute, the duty of disclosure does require applicants to provide the Office with "all information known . . . to be material to patentability." *Id.* § 1.56.

330. See, e.g., *In re Hans Oetiker*, 977 F.2d 1443, 1445 (Fed. Cir. 1992) ("[T]he examiner bears the initial burden, on review of the prior art or on any other ground, of presenting a *prima facie* case of unpatentability. If that burden is met, the burden of coming forward with evidence or argument shifts to the applicant. . . . If examination at the initial stage does not produce a *prima facie* case of unpatentability, then without more the applicant is entitled to grant of the patent.").

331. See, e.g., *In re Wakefield*, 422 F.2d 897, 900 (C.C.P.A. 1970) ("[A]n applicant should be allowed to determine the necessary number and scope of his claims, provided he pays the required fees and otherwise complies with the statute.").

332. See generally *Changes to Practice for the Examination of Claims in Patent Applications*, 71 Fed. Reg. 61 (proposed Jan. 3, 2006) (to be codified at 37 C.F.R. pt. 1); *Changes to Implement the Patent Business Goals*, 63 Fed. Reg. 53,498, 53,507 (Oct. 5, 1998) ("A rule limiting the number of claims in an application is within the PTO's rulemaking authority . . .").

333. The PTO cites 35 U.S.C. § 2(b)(2) as the authority to adopt the new rule. See *Changes to Practice for the Examination of Claims in Patent Applications*, 71 Fed. Reg. at 67.

The PTO reminds applicants that after the designated claims are allowable, all claims will eventually be examined.³³⁴ The delayed examination will not harm applicants so long as they designate patentable claims for initial examination. Because the applicant is generally in a better position to understand the novelty of his or her invention,³³⁵ the PTO argues that it is entirely fair to ask applicants to designate a limited number of claims for initial examination.³³⁶ After all, applicants are already required by statute to present claims that “particularly point[] out and distinctly claim[] the subject matter which the applicant regards as his invention.”³³⁷

III. DEFINING THE RULEMAKING LINE

As described above, there is confusion over the scope of the PTO's rulemaking authority. This part offers a reasonable solution to resolve some of this confusion. Part III.A proposes a framework for distinguishing between valid and invalid PTO rules. Part III.B applies this framework to the new continuing application and claim designation rules. Part III.C advances some policy arguments for not adopting either of the two proposed rules. Part III.D concludes with some alternatives to adopting the new rules that might help increase examination efficiency and reduce the backlog of unexamined applications at the PTO.

A. *A Sensible Reading of 35 U.S.C. § 2(b)(2)*

Despite broad dicta from the Federal Circuit suggesting that the PTO has no substantive rulemaking authority, an alternative and more workable interpretation of 35 U.S.C. § 2(b)(2) would allow the PTO to promulgate both interpretive and certain substantive rules. Any agency charged with conducting proceedings should be permitted to adopt rules regulating those proceedings. It is reasonable to assume, therefore, that some agencies, like the PTO, have the inherent power to establish certain rules and regulations.³³⁸ Courts should interpret the PTO's rulemaking authority broadly because Congress intended to enlarge the PTO's power to adopt rules when it enacted the PTO's rulemaking provision in the Act of 1870 and the Patent Act of 1952.³³⁹ Setting an arbitrary prohibition against

334. See *supra* note 99 and accompanying text.

335. But see *supra* note 326 and accompanying text.

336. See generally Changes to Practice for the Examination of Claims in Patent Applications, 71 Fed. Reg. 61.

337. 35 U.S.C. § 112 (2000).

338. For a similar view, see Wamsley, *supra* note 201, at 555. The PTO seems to agree. See Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. 48, 50 (proposed Jan. 3, 2006) (to be codified at 37 C.F.R. pt. 1) (“[T]he Director has the inherent authority . . . to ensure that applicants comply [with the general requirement of good faith in prosecution].”). But see *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1427 (Fed. Cir. 1988) (“The Commissioner . . . has no inherent authority, only that which Congress gives.”).

339. See *supra* notes 115-19 and accompanying text.

promulgating substantive rules seems unnecessarily restrictive, particularly when the PTO's statutory rulemaking authority is arguably silent as to the PTO's authority to adopt substantive rules.³⁴⁰

An interpretation allowing the PTO to promulgate both interpretive rules and certain substantive rules is more reasonable, especially considering the expansive definition of substantive rules offered by some courts. For example, the PTO regularly codifies its rules in title 37 of the C.F.R.³⁴¹ It also expressly invokes its general legislative rulemaking authority when promulgating new rules.³⁴² As a result, some courts would presumably conclude that almost all PTO rules are substantive.³⁴³ A more sensible solution, therefore, would rework the definition of a substantive rule or permit the PTO to adopt certain substantive rules.

The approach that this Note suggests—one that is also supported by the plain meaning of 35 U.S.C. § 2(b)(2) as well as its legislative history—is to allow the PTO to promulgate interpretive rules as well as substantive rules relating exclusively to the “conduct of proceedings” in the PTO.³⁴⁴ In keeping with the original intention of Congress, all substantive rules adopted pursuant to the PTO's rulemaking authority should pertain only to an applicant's interaction with the PTO or the procedure for obtaining a patent or trademark.³⁴⁵ If a proposed PTO rule encompasses more than an applicant's interaction with the PTO or the procedure for obtaining a patent or trademark, the rule would govern more than the conduct of proceedings in the PTO and be literally inconsistent with the plain meaning of the PTO's rulemaking authority.³⁴⁶

A framework for permissible PTO rulemaking must also resolve the definition of a substantive rule. As shown above, a general-purpose test to distinguish between substantive rules and interpretive rules is not very practical.³⁴⁷ Just because the PTO codifies a rule in the C.F.R. or expressly invokes its legislative rulemaking authority when promulgating a rule should not necessarily pigeonhole that rule as substantive. Rather, as urged by the Federal Circuit, a reviewing court should perform a rule-specific inquiry focusing on the rule's legal effect on the “rights and obligations” of

340. *But see supra* notes 212-17 and accompanying text.

341. *See supra* note 131 and accompanying text.

342. The notices of proposed rulemaking published in the Federal Register for the two new rules both expressly indicate the authority for part 1 of title 37 of the C.F.R. as 35 U.S.C. § 2(b)(2). This would seem to support the position that the PTO always invokes its general grant of statutory rulemaking authority when it codifies rules. *See* Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims, 71 Fed. Reg. at 58; Changes to Practice for the Examination of Claims in Patent Applications, 71 Fed. Reg. 61, 67 (proposed Jan. 3, 2006) (to be codified at 37 C.F.R. pt. 1).

343. These two factors were part of the *American Mining Congress* substantive/interpretive rule test. *See supra* note 232 and accompanying text.

344. *See* 35 U.S.C. § 2(b)(2)(A) (2000).

345. *See supra* notes 115-16 and accompanying text.

346. *See* 35 U.S.C. § 2(b)(2)(A).

347. *See supra* note 230 and accompanying text.

patent applicants.³⁴⁸ A court should then classify a rule as substantive only if the rule adversely affects a patent applicant's rights guaranteed by the patent statute.³⁴⁹ Although it may be difficult to see how a rule relating exclusively to the PTO's conduct of proceedings could adversely affect a patent applicant's statutory rights, substantive rules need not be mutually exclusive with rules governing the conduct of proceedings in the PTO. For example, as described below, the new continuing application rule is likely a substantive rule that governs the conduct of proceedings in the PTO.³⁵⁰ Regardless of whether other such substantive rules exist, it is important not to deprive the PTO of this potential avenue of substantive rulemaking.

Of course, classifying a rule as substantive or interpretive does not end the permissible rulemaking inquiry. As noted above, all rules adopted by the PTO must also be consistent with both case law and statute³⁵¹ and not be arbitrary or capricious.³⁵² These restrictions considerably limit the subject matter available for PTO rulemaking.³⁵³

B. *A Hard Look at the Two Proposed Rules*

Analyzing the two new rules under the framework presented above, a reviewing court should find that the new continuing application rule is an invalid, substantive rule and the new claim designation rule is a valid, interpretive rule. Although both of the proposed rules are intended to have "legal effect," only the proposed continuing application rule adversely affects an applicant's statutory right—namely, the unequivocal right to continuing applications guaranteed by sections 120, 121, and 365(c) of the patent statute.³⁵⁴ This distinction should qualify the continuing application rule as a substantive rule.

The claim designation rule, however, merely details a new requisite for examination.³⁵⁵ Because the PTO will ultimately examine all the claims in the application and allow them to grant in a patent, an applicant's statutory right to a patent is not adversely affected.³⁵⁶ In addition, applicants cannot reasonably contend that the claim designation rule adversely affects any other rights guaranteed by other sections of the patent statute. A reviewing court should, therefore, classify the proposed claim designation rule as an interpretive rule.

348. *Animal Legal Def. Fund v. Quigg*, 932 F.2d 920, 927 (Fed. Cir. 1991).

349. *See id.* at 930 (finding that a PTO Notice does not "adversely 'affect existing rights and obligations' of patent applicants" (quoting *Chrysler Corp. v. Brown*, 441 U.S. 281, 302 (1979))).

350. *See infra* notes 354-66 and accompanying text.

351. *See supra* notes 198-201 and accompanying text.

352. *See supra* notes 239-47 and accompanying text.

353. *See supra* note 201 and accompanying text.

354. *See supra* notes 263-77 and accompanying text.

355. *See supra* notes 96-101 and accompanying text.

356. *See supra* notes 334-37 and accompanying text.

After classifying a PTO rule as interpretive or substantive, the next consideration is whether the rule exclusively “govern[s] the conduct of proceedings in the Office.”³⁵⁷ Rules meeting this requirement are limited to those regulating aspects of the management and control of the procedure of PTO proceedings. Some examples may be illuminating: The format and manner of submitting patent applications and an applicant’s duty of disclosure to the PTO during the prosecution process can be considered part of the management and control of the procedure of the patent examination proceeding. A binding declaration of patentable subject matter, however, would not fall within the “conduct of proceedings” provision because such a declaration would regulate the substance of the patent examination proceeding.

Both of the new rules can be construed to govern the “conduct of proceedings in the Office.” For example, the claim designation rule requires an applicant to designate representative claims for examination before the PTO will consider the applicant’s patent application.³⁵⁸ This regulates the management and control of the procedure of the patent examination process. Similarly, the continuing application rule regulates the management and control of the procedure of the application filing process.

The continuing application rule is likely invalid, however, because it is inconsistent with both statute and case law.³⁵⁹ As previously discussed, a PTO rule that is inconsistent with either statute or case law is outside the scope of the PTO’s rulemaking authority, regardless of whether the rule is substantive or interpretive.³⁶⁰ The PTO even recognizes the inconsistency with precedent, but justifies the new rule because it does not place an absolute limit on continuing applications.³⁶¹ This view is short-sighted, however, because the “could not have been previously submitted” standard is, for almost all purposes, an effective limit to a single continuing application per original application filing.³⁶² In some cases, the new continuing application rule can even completely usurp section 120 benefits from some applicants.

For example, an applicant could not file a single continuation application under 35 U.S.C. § 120 based on an application where a request for continued examination has already been filed.³⁶³ The new rule, therefore, may eliminate section 120 benefits in some circumstances. This consequence of the new rule clearly cannot be compatible with Congress’

357. See 35 U.S.C. § 2(b)(2)(A) (2000).

358. See *supra* notes 96-101 and accompanying text.

359. See *supra* Part II.A.1.a.

360. See *supra* notes 198-201 and accompanying text.

361. See *supra* Part II.A.2.a.

362. But see Town Hall Presentation, *supra* note 261 (illustrating some examples of when the standard would be met).

363. See *supra* notes 88-90 and accompanying text.

intention when it enacted section 120.³⁶⁴ The PTO, therefore, should receive authority from Congress to limit continuing applications rather than adopt a rule that has the potential of being overturned.

Because the continuing application rule contravenes the purpose of section 120 and goes against established precedent, a reviewing court should find the proposed rule invalid as exceeding the PTO's statutory rulemaking authority found in 35 U.S.C. § 2(b)(2). The rule may also be invalidated under the APA as "an abuse of discretion, or otherwise not in accordance with law" provision³⁶⁵ or the "in excess of statutory jurisdiction, authority, or limitations" provision.³⁶⁶

The proposed claim designation rule, however, is squarely within the PTO's rulemaking powers because it does not offend established precedent or statute.³⁶⁷ Although the PTO does have a statutory obligation to examine patent applications and notify an applicant of claim rejections, the patent statute is silent as to the manner of performing these obligations.³⁶⁸ Thus, Congress has implicitly left the PTO a gap to fill using its rulemaking powers.³⁶⁹ Under the *Chevron* rubric, this rule should not be overturned unless unreasonable³⁷⁰—an argument not advanced by opponents of the rule.

The claim designation rule should also pass muster under the APA. For example, because the PTO has advanced legitimate efficiency concerns for the new claim designation rule and considered the "relevant factors," the rule cannot be said to be arbitrary or capricious or an abuse of discretion.³⁷¹ The rule, therefore, is likely a valid exercise of the PTO's rulemaking power.

C. Reality Check: Policy Considerations for Not Adopting the Proposed Rules

Regardless of whether the new continuing application rule or claim designation rule is invalid, there are policy reasons for not adopting either of the two rules. Many small and large technology companies rely heavily on licensing royalties from patents for continued research and development.³⁷² Not only would the new rules drastically reduce the scope

364. See *supra* notes 263-68 and accompanying text.

365. 5 U.S.C. § 706(2)(A) (2000). Since the language of this provision closely mimics the language of 35 U.S.C. § 2(b)(2), the analysis under either of these sections would be similar. Compare 5 U.S.C. § 706(2)(A), with 35 U.S.C. § 2(b)(2)(A).

366. 5 U.S.C. § 706(2)(C).

367. However, opponents of the rule contend the rule offends judicial dicta. See *supra* note 331 and accompanying text.

368. See 35 U.S.C. §§ 131-132.

369. This rule is therefore entitled to substantial deference. See *supra* notes 250-52 and accompanying text.

370. See *supra* notes 251-52 and accompanying text.

371. See *Citizens to Preserve Overton Park v. Volpe*, 401 U.S. 402, 416 (1971).

372. See, e.g., Neil M. Goodman, *Patent Licensee Standing and the Declaratory Judgment Act*, 83 Colum. L. Rev. 186, 207-09 (1983).

of patent protection for technology companies—deincentivizing innovation—but independent inventors would be adversely affected as well. Independent inventors, who are entitled to prosecute patent applications pro se, often have extremely limited resources and little patent prosecution experience. If the PTO gives these applicants only “four bites”³⁷³ at obtaining a patent, then pro se applicants may not invest the time and money in the patent application process for fear of not being able to obtain a patent at all.

In addition, even an experienced patent practitioner typically attempts to explain a complicated invention to a patent examiner several times before the examiner fully comprehends the novelty of the invention. By setting a limit on the number of continuing applications and requests for continued examination, many patent applicants will be unable to come to an agreement with the examiner on the patentability of an application’s claims, especially if the novelty lies in a dependent claim that was not designated for initial examination.³⁷⁴ This result may cause applicants to seek alternate forms of protection, including trade secrets,³⁷⁵ which add little or nothing to the wealth of public knowledge.³⁷⁶ As such, a reduction in the number of applicants seeking patent protection may stifle innovation and the free flow of ingenuity and creativity.

Moreover, the PTO encourages early disclosure of new applications, yet the reality is that many new products take over ten years, if not longer, to fully develop and commercialize.³⁷⁷ During this time, the utility of the product may change. Because patent applicants are entitled to receive claims covering new applications of their inventions,³⁷⁸ it is unreasonable to limit applicants to a single continuing application.³⁷⁹

The reality is that the prosecution of a patent application is an extremely complex endeavor. Patent applicants and practitioners monitor court decisions closely. Judicially created doctrines, such as the doctrine of claim differentiation³⁸⁰ and prosecution history estoppel,³⁸¹ have an effect on the

373. The applicant would receive two bites in the original application filing and another two bites after the sole permitted continuing application or request for continued examination filing. *See supra* Part I.B.1.

374. *See supra* notes 324-25 and accompanying text.

375. *See supra* note 32 and accompanying text.

376. *See generally* 2 Roger M. Milgrim, *Milgrim on Trade Secrets* § 8.02 (1967); Michael P. Simpson, *Future of Innovation: Trade Secrets, Property Rights, and Protectionism—An Age-Old Tale*, 70 *Brook. L. Rev.* 1121 (2005).

377. *See* Cutland, *supra* note 103.

378. The new claims must be supported by the original disclosure, however. *See generally* 35 U.S.C. § 112 (2000).

379. *See supra* note 311 and accompanying text.

380. *See, e.g.*, *Tandon Corp. v. U.S. Int’l Trade Comm’n*, 831 F.2d 1017, 1023 (Fed. Cir. 1987) (“There is presumed to be a difference in meaning and scope when different words or phrases are used in separate claims.”).

381. *See, e.g.*, *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 727 (2002) (“When the patentee responds to the rejection by narrowing his claims, this prosecution history estops him from later arguing that the subject matter covered by the original, broader claim was nothing more than an equivalent.”).

number of applications filed for a particular invention and the type and number of claims presented in each application. For example, after the Supreme Court's decision in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*,³⁸² applicants who seek comprehensive patent protection often file multiple applications with claims of varying scope.³⁸³ The PTO, therefore, should permit applicants to choose the desired level of patent protection.

D. *Effective Alternatives to the New Rules*

The PTO is in the position to reduce the growing backlog of pending applications without needing to adopt drastic rules. The most direct way to reduce patent application pendency is to hire more patent examiners. Although hiring more examiners may require an increase in patent application fees,³⁸⁴ the result would be a corps of examiners that might begin to chip away at the growing mound of unexamined patent applications. Fortunately, the PTO has pledged to hire at least 1200 new examiners each year through 2012;³⁸⁵ however, many challenges relating to examiner attrition and low morale remain.³⁸⁶ The PTO should focus its efforts on hiring, training, and retaining competent, happy, and productive examiners.

The PTO could also offer increased incentives, such as filing discounts, for electronic correspondence with the Office. The electronic filing system³⁸⁷ facilitates initial processing and application screening, reducing application intake time. Faster correspondence intake may reduce patent pendency by putting amendments and responses to Office Actions in the hands of patent examiners sooner.

Another alternative to adopting the new rules would be to lobby Congress for another increase in patent application filing fees.³⁸⁸ Increasing fees has an impact on the number of applications filed and the number of claims filed per application. For example, the PTO's FY 2006 Performance and Accountability Report noted that the PTO did not meet

382. *Id.*

383. See Faber, *supra* note 45, § 60.

384. Patent application filing fees are set by statute. See 35 U.S.C. § 41(a)(1) (2000). Other patent fees and surcharges are authorized by several statutory provisions. See, e.g., 35 U.S.C. §§ 41, 119, 120, 132(b), 376 (each permitting the PTO to establish various fees and surcharges); see also FY 2007 Fee Schedule, *supra* note 56.

385. See Performance and Accountability Report: Fiscal Year 2006, *supra* note 5, at 60.

386. See Florence Olsen, *Patent Examiners Battle Stress: USPTO Struggles with Hiring, Retention Issues Amid Morale Problems*, FCW.com, July 25, 2005, <http://www.fcw.com/article89658-07-25-05-Print> (last visited Feb. 27, 2007); see also U.S. Gov't Accountability Office, *Intellectual Property: USPTO Has Made Progress in Hiring Examiners, But Challenges to Retention Remain* 5 (June 2005), available at <http://www.gao.gov/new.items/d05720.pdf>.

387. See Electronic Filing System Help, *supra* note 5.

388. The last fee increase was authorized in 2005. See Consolidated Appropriations Act of 2005, Pub. L. No. 108-447, §§ 801-03, 118 Stat. 2809, 2924-30.

planned fee collections for the year due to a “decrease in the expected number of claims being filed per application.”³⁸⁹ This drop in the number of claims presented for examination can be partially attributed to the hefty \$200 surcharge for each independent claim in excess of three and \$50 surcharge for each claim in excess of twenty total claims presented in a patent application.³⁹⁰ If the number of claims in new application filings remains an intractable problem for the PTO, then increasing filing fees might help contain unchecked new filings. Even the Patent Public Advisory Committee of the PTO recognizes that “some applicants . . . have voluntarily reduced initial claims presented” to avoid the filing surcharge.³⁹¹ Another fee increase might further reduce the number of claims presented for examination, easing the PTO’s examination burden. Together, these alternatives might help the PTO meet its Strategic Plan goal to control application pendency without the need to adopt new rules that might limit the ability of applicants to procure comprehensive patent protection for their inventions.

CONCLUSION

To be sure, many problems will still linger at the PTO regardless of whether the Office adopts the new continuing application and claim designation rules. Improving examination efficiency and patent quality should be a “*mutually shared* responsibility” of both the PTO and patent applicants.³⁹² Adopting radical new rules with questionable validity, however, is ill-advised and short-sighted, particularly when the new rules will cause applicants to rethink patent protection. Because of the PTO’s dubious statutory authority to adopt the rules, the PTO should develop an alternative plan for combating the “workload crisis” at the PTO.

389. See Performance and Accountability Report: Fiscal Year 2006, *supra* note 5, at 62.

390. These excess claim fees are the fees for non-small entities. See FY 2007 Fee Schedule, *supra* note 56.

391. Letter from Rick D. Nydegger, Chair, Patent Pub. Advisory Comm. of the U.S. Patent & Trademark Office, to Honorable Jon Dudas, Under Sec’y of Commerce for Intellectual Prop. 5 n.4 (May 3, 2006), available at <http://www.uspto.gov/web/offices/pac/dapp/opla/comments/fppcontinuation/ppac.pdf>.

392. *Id.* at 1.

Notes & Observations